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A recovery like that of Lazarus
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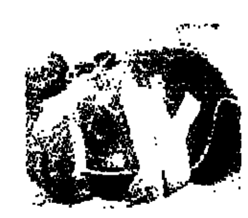

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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY DECEMBER 3 1992 — D8523A

Belgian bank chief quits after Dutch bid fails

Theo Peeters, chief executive of Banque Bruxelles Lambert, resigned yesterday following the failure of Internationale Nederlanden Groep, the Dutch financial services group, to bid for BBL, one of Belgium's big three banks. Mr Peeters and most of BBL's management strongly supported the ING proposals, but the Dutch group backed out last month. Page 16

Observers held by Khmer Rouge: Six UN peacekeepers were still being held by Khmer Rouge guerrillas in Cambodia after more than 24 hours. Another six UN staff were injured in mine explosions. Page 4

UN soldier kidnapped: A Danish soldier with the UN Protection Force in Bosnia was kidnapped while jogging near Sarajevo. He was seized in Croat-held Kiseljak about 15 miles from the Bosnian capital. Ministers to discuss violations by Serbia, Page 2

China blames Britain: Chinese premier Li Peng blamed the Hong Kong government for this week's 10 per cent fall in the British colony's stock market. He said China had no role in the stock market panic. Chinese leaders 'don't want to deal with Patten', Page 4; World stocks, Page 34

Nomura Securities, Japan's biggest broker, *is to shed 10 per cent of its workforce – 1,400* staff – over three years. It will also close many of the broking boutiques it opened in Japanese stores and shopping malls. Page 18

Greek premier sacks cabinet: Greek prime minister Constantine Mitsotakis sacked his cabinet and said he would form a new government within 24 hours. Page 2

Last Gatt details: US and European Community officials were meeting in Brussels yesterday to finalise the last details of the farm pact which clears the way for a global trade deal, the European Commission said. France keeps up pressure, Page 6

Union des Assurances de Paris, France's largest insurance group, announced a FFr1.4bn ($259m) recapitalisation for its banking unit, Banque Worms. The move signals the severity of the Paris property market collapse. Page 15

Indian official charged: V. Krishnamurthy, a former top figure in India's state-owned industry, has been charged with accepting secret commission payments from unnamed overseas companies while chairman of two state companies. Page 4

Summit on Angola: Southern Africa's Frontline states are to hold an emergency summit, possibly next week, about Angola's crumbling peace accord, General Alexandre Rodrigues, head of Angola's head of military intelligence.

Executive quits: Karl Dersch, 57, international marketing director for Deutsche Aerospace, has left the company after newspapers reported that he flies the old German imperial war flag in his front garden. The flag has become the favourite banner of neo-Nazis. Observer, Page 13

Space shuttle launched on secret mission

The US space shuttle Discovery blasted off from Cape Canaveral, Florida, on a secret mission *to launch what is believed to be a spy satellite*. Five astronauts are on board. The mission is the last of 1992 and the last which will carry a classified military cargo.

Japan's computer project: Japan is launching a 10-year, Y60bn ($480m) project to teach computers to think like humans. "Our computer will have quite excellent intuitive sensory power," said Hajime Irisawa, executive director of the project.

Swiss passions run high: The Swiss, not known for emotional outbursts, are passionately debating whether to join the European Economic *Area. They will vote in a referendum on Sunday.* Page 14

■ STOCK MARKET INDICES

FT-SE 100:	2,764.1	(−27.9)
Yield	4.28	
FT-SE Eurotrack 100	1,052.11	(−4.68)
FT-A All-Share	1,309.32	(−0.7%)
Nikkei	17,393.68	(+60.64)
New York: lunchtime		
Dow Jones Ind Ave	3,285.44	(−8.92)
S&P Composite	429.22	(−1.56)

■ US LUNCHTIME RATES

Federal Funds:	3%
3-mo Treas Bills: Yld	3.385%
Long Bond	100$\frac{17}{32}$
Yield	7.548%

■ LONDON MONEY

3-mo Interbank	7¼%	(7⅜%)
Liffe long gilt future:	Dec 98$\frac{11}{16}$	(Dec 99$\frac{1}{32}$)

■ NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$18.375	(18.6)

■ Gold

New York Comex (Dec)	$335.9	(335.1)
London	$336.45	(334.65)

■ STERLING

New York lunchtime:		
$	1.5515	
London:		
$	1.5485	(1.5365)
DM	2.4325	(2.4275)
FFr	8.295	(8.2825)
SFr	2.1575	(2.1725)
Y	192.75	(191.25)
£ Index	79.5	(78.9)

■ DOLLAR

New York lunchtime:		
DM	1.5687	
FFr	5.3515	
SFr	1.393	
Y	124.47	
London:		
DM	1.571	(1.58)
FFr	5.3575	(5.39)
SFr	1.3925	(1.4145)
Y	124.4	(same)
$ Index	65.2	(65.7)

Tokyo close Y 124.17

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pts200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht60
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00

French franc struggles in spite of intervention

By Peter Marsh in London, Quentin Peel in Bonn and William Dawkins in Paris

INTERVENTION by the Bundesbank yesterday failed to provide more than a modest lift to the French franc, in a development which held out the possibility of further strains in the embattled European exchange rate mechanism.

The action by the German central bank in buying francs for D-Marks was triggered by further shifts of US and European investors funds into the D-Mark, as a result of widespread perceptions that German interest rates were likely to stay high for some time.

The latest signs of tensions in the ERM, which threaten a further round of realignments to follow the three which have taken place since September, are due to be discussed today by French and German political leaders in a two-day meeting in Bonn prior to next week's European Community summit in Edinburgh.

Mr Helmut Kohl, the German chancellor, and Mr François Mitterrand, the French president, are to confer with their foreign and finance ministers about broad foreign policy issues, including the outcome of the Gatt trade negotiations.

As the franc fell in early trading yesterday to a 10-week low against the D-Mark, a senior French finance ministry official *formally denied market rumours* that the Bundesbank was putting pressure on France to raise interest rates to defend the franc. Neither had French and German authorities had discussed moving the franc into a narrower ERM band, the official said.

In recent days, there has been intense market speculation that the two countries might be preparing a plan to "harden" the ERM by some unspecified initiative in order to damp the recent selling pressure against some of the weak currencies.

Yesterday's intervention by the Bundesbank – which took place in at least two separate rounds in the morning and afternoon – propped the franc from its low point of FFr3.4150 to the D-Mark. The support was reciprocated by *action from the Bank of France* purchasing its own currency for D-Marks, in a repeat of its intervention on Tuesday.

But the combined operations of the two central banks succeeded in lifting the franc only as far as a closing level in London of FFr3.411 to the D-Mark, a position barely changed from the previous close of FFr3.412 and within two centimes of its FFr3.43 ERM floor.

As a wave of concern about the ERM's future swept Europe, other events yesterday included:

● Mr Piero Barucci, the Italian treasury minister, told the parliament in Rome that the ERM would need a major revision if the D-Mark continued to dominate the other seven currencies in the system.

● The central banks of the Netherlands, Belgium and Denmark bought the Danish krone on currency markets in exchange for guilders and Belgian francs to prevent the weakest ERM member *from falling through its ERM* limits. At the close of European trading, the krone was quoted at around 3.86 to the D-Mark, just above its floor of 3.90.

● The Belgian central bank, custodian of one of the stronger

Continued on Page 14
Currencies, Page 30

The Bundesbank begins to make its voice heard

By Christopher Parkes in Frankfurt

THE GUARDIANS of the D-Mark have forsaken their traditional *low-key communications techniques*. Mr Helmut Schlesinger, Bundesbank president, and his partners on the bank's council have taken instead to shouting their message from the rooftops.

In a series of speeches they have spelt out with uncommon and increasing clarity the failings of German financial and economic policies, and exposed the potholes in the road to European monetary union.

The Bundesbank has taken advantage of the confusion and uncertainty paralysing European Community politics and disrupting money markets. After absorbing intense and fierce criticism of its policies for almost two years, it feels the time has come to do more than repeatedly defend its rigid stance and has sprung on to the offensive.

Irritated by demands from foreign politicians for interest rate cuts, the bank is shooting back. It has also successfully offloaded the responsibility for its rigid *monetary stance on to Bonn.*

Mr Schlesinger's campaigning reached a new high on Tuesday when he announced that mechanisms designed to keep the European Monetary System stable did not work.

The obligation on central banks to intervene in support of weaker currencies within the exchange rate mechanism was little more than an invitation for speculators, he said.

The bank is estimated to have lost more than DM1bn ($600bn) *during recent fruitless battles to* defend sterling and the lira, and was intervening again yesterday as the French franc came under strain.

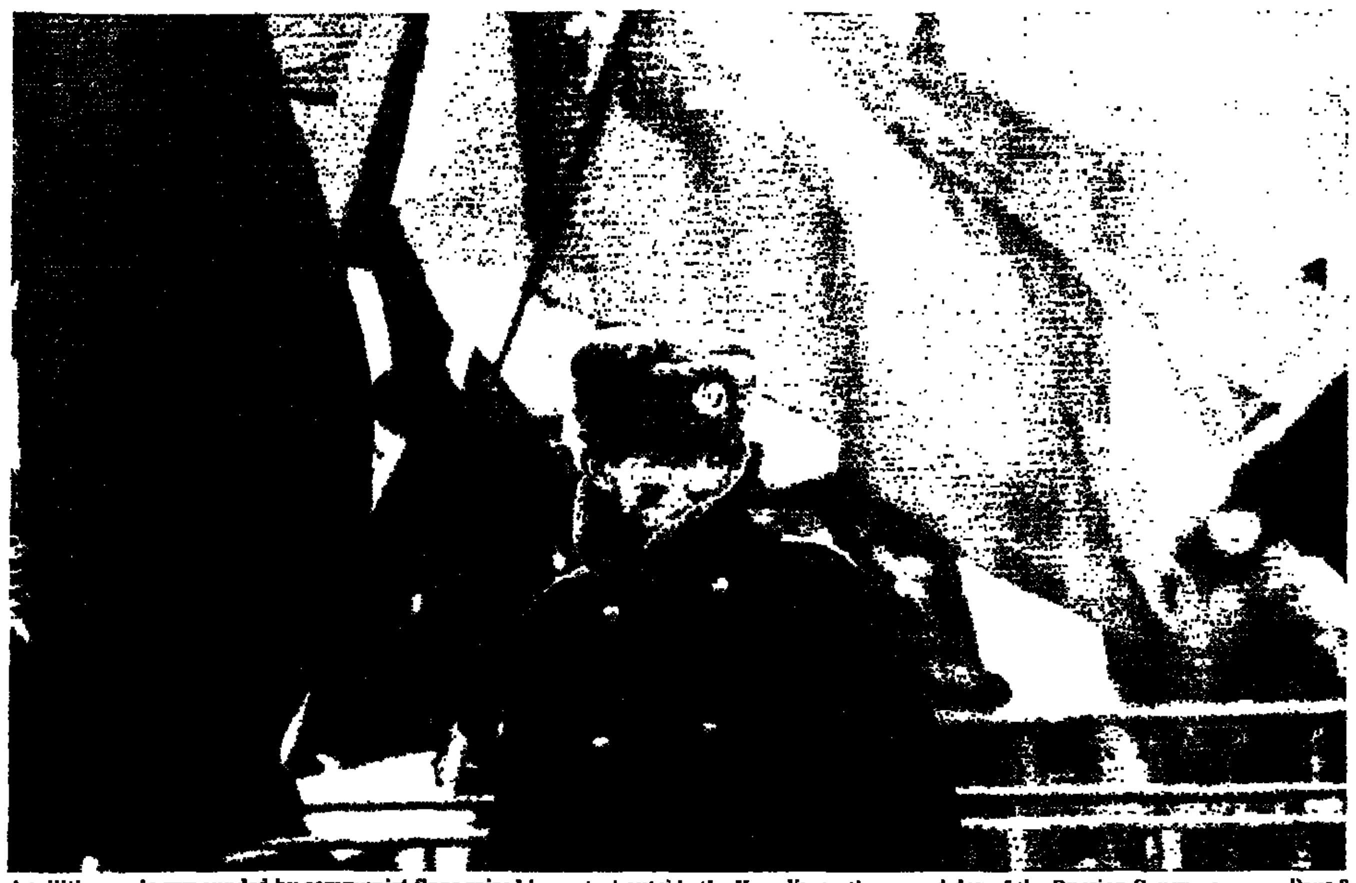
Mr Schlesinger underlined his concerns by repeating a blast from a speech made 10 days earlier. He proclaimed that the economic convergence criteria governing the transition to a common currency were neither clear nor tough enough. Without changes, monetary union could be infected with the deadly inflation virus from the outset.

While insisting that there is no need for fundamental reforms, the bank has made clear how little it thinks of politicians' attempts at monetary engineering.

Although Bonn appeared to have accepted that priority should be given to cutting subsidies rather than shuffling the numbers, Mr Schlesinger is still waiting for signs of the drastic economies urged by Chancellor *Helmut Kohl's independent* advisers.

Apart from higher short-term borrowing, anathema to the bank, the government had not yet found a way to share out the costs of unification, he said. If a *solution was not found the issue*

Continued on Page 14



A militiaman is surrounded by communist flags raised in protest outside the Kremlin on the second day of the Russian Congress — Page 3

Rotten case of the bent bananas

By Ian Hamilton Fazey in Manchester and David Dodwell in London

BRITISH Customs officers investigating an alleged £1.6m ($2.4m) "banana laundering" fraud have "detained" 53 tonnes of bananas shipped from the Netherlands to Britain. They *have also removed documents* from an importing company in north-east England.

Officers said the "bent" bananas are believed to have been bought at low Latin American prices, and that importers allegedly intended to relabel them to be sold in Britain at prices which included European Community subsidies.

"We believe this is very similar to frauds which exploit the EC's Common Agricultural Policy", UK Customs and Excise said yesterday.

There have been mounting fears of "banana running" into the UK as the establishment of the single European market approaches on January 1.

This is because of a 15 per cent price difference between cheap "dollar" bananas from Latin America freely available in Germany, Belgium and Denmark, and more expensive bananas which have protected access to markets including France, the UK, Spain and Portugal.

The expensive bananas come from former French and British colonies or overseas territories (mainly in the Caribbean), Madeira, the Canaries and Cyprus.

Efforts to reform the EC banana import regime have been deadlocked for more than a year. Germany is unwilling to pay more for bananas, while countries such as France and the UK will not renege on Lomé Convention commitments to protect livelihoods in former colonies. This paralysis has left the door open to "banana running".

Mr John Gummer, UK agriculture minister, warned yesterday that there could be "chaos" if EC member states did not know by January 1 how the regime was going to be reformed.

Investigation of the alleged Humberside fraud began a year ago. Customs said there had been no arrests or charges and stressed the bananas had been "detained" rather then "seized".

The bananas are understood to have come from Nicaragua, and to have been hidden under 22 tonnes of bananas from the Caribbean island of Dominica, a former British colony. The *bananas are understood to be* ripening in detention and may have to be destroyed.

Five EC states fall behind in single market legislation

By Andrew Hill in Brussels

FIVE EUROPEAN countries appear to be falling behind their EC partners in the race to put EC legislation on the single market into force.

Mr Martin Bangemann, EC internal market commissioner, has written to Britain, Spain, Luxembourg, Belgium and Italy urging them to accelerate the progress of single market legislation through national parliaments as the January 1 deadline *for opening borders gets closer.*

According to Commission officials, Britain – which lays particular stress on the proper implementation of EC laws – and Spain have not replied to Mr Bangemann's letters. However, a senior UK official said London had not even received the Commission warning.

EC directives cannot take effect until they are transferred into national law, and the Commission is worried that, if it does not put pressure on laggard countries now, the single market will be badly flawed when it opens for business on January 1. Brussels is particularly worried about the failure of some countries to implement important legislation harmonising the system for collecting value added tax and excise duty – the basis for lifting internal border controls on goods at the end of this year.

Commission officials say directives which would open up the EC financial services market have also been poorly transposed.

The same officials indicated yesterday that Brussels might *take emergency legal action* against the worst offenders in January, although they stressed that this would be a political decision taken by Mr Bangemann and fellow commissioners.

They also pointed out that individual citizens could sue member states for failure to implement EC laws, while other member states could refuse products and services coming from members which did not conform with Community legislation.

Britain, which holds the Community presidency, was until recently among the most efficient transposers of EC law. According to October figures, however, Britain has converted only 72.8 per cent of the relevant directives into national law. That puts the UK eighth out of the 12 and compares with the Community average of 79 per cent. "It's not as good as we would like," admitted a British official, but he said efforts were being made to increase the score by the end of the year.

Denmark, which has transferred 94.7 per cent of the EC *legislation into national law*, heads the table of member states, followed by France, Greece, and Germany.

The Commission yesterday decided to back suggestions that the transparency and implementation *of EC rules* should be improved, partnership with member states to enforce rules should be encouraged, and national courts' duty to enforce EC law should be strengthened. The original proposals were included in the Sutherland report on implementing the single market, which was published in October.

CONTENTS

Sanctions lay low Serbian economy

By Laura Silber in Belgrade

SANCTIONS are sounding the death knell of the Serbian economy, ruined by more than a year of war and the collapse of trade with the former Yugoslav republics.

Tighter sanctions, especially the oil embargo, are likely to bite with even greater severity following the United Nations Security Council vote on November 16 to tighten up on transshipments through Yugoslavia, now comprising Serbia and Montenegro.

Mr Tomislav Popovic, a Belgrade economist, believes that within three months Serbia will have grave problems providing its people with energy and food. He expects that the gross social product (a measurement roughly 10 per cent less than western gross domestic product calculations) will fall to $1.7bn in the last quarter of this year, a drop of $5bn on the same period three years ago.

Only a quarter of the 2.4m labour force is working and producing effectively, says Mr Popovic. Unable to keep industry going, state enterprises have sent about 800,000 workers on "forced holidays". Prices rose by 50 per cent in October, and industrial production fell about 25 per cent from the same period last year.

The Yugoslav dinar, was devalued from 200 to the dollar to 750 last month. But on the flourishing black market, hard currency is being sold well above the new official rate.

Says one western diplomat: "For the time being it is a cash economy, but if inflation continues to rise, the dinar will not be worth using." Given the near collapse of the banking system, 40 per cent of all transactions are in cash, compared with 5-8 per cent in an average western economy. Credit cards are no longer accepted.

Diplomats say even the astronomical inflation rate no longer fully reflects the catastrophic economic situation. A price freeze covers 42 per cent of all goods. "Further, the basket of goods has changed," says a western diplomat. "People don't buy meat, many have stopped buying clothes and they can't buy newspapers."

Two private banks, which have close ties to the government, are helping to keep the social peace by offering high interest rates on dinar deposits. The banks, Dafiment and Jugoskandic, offer rates of up to 95 per cent per month, nearly double the official inflation rate. Each night thousands of Belgrade inhabitants queue up to collect their interest, which enables many to make ends meet.

The tightened trade embargo may hurt Dafiment and Jugoskandic which diplomats believe have made enormous profits from sanctions busting. In spite of the oil embargo, the bank owners have opened up private petrol stations, licensed by the Serbian authorities.

Sanctions-busting has also encouraged a growing segment of society to turn to crime, and the black market offers a wide range of wares from petrol to Kalashnikov rifles. Thanks to sanctions violations about 5-10 per cent of the population are getting rich by current Yugoslav standards, says Mr Dobrijvoje Radovanovic, director of the Institute of Criminology.

But Mr Popovic estimates that half Serbia's 9.8m inhabitants are below the poverty line, earning less than $370 a year. The huge influx of refugees from Bosnia and Croatia has also taxed an already overburdened system.

As the situation deteriorates, the government has introduced further austerity measures, putting the economy on a virtual war footing.

Conference to discuss Belgrade's defiance of UN

By Robert Mauthner, Diplomatic Editor

TOUGHER action against Serbia, possibly including military action, will be discussed by foreign ministers from 30 countries at a conference in Geneva on December 16, convened to discuss the rapidly deteriorating situation in Bosnia-Hercegovina.

The conference, to be co-chaired by Lord Owen and Mr Cyrus Vance, the European Community and United Nations mediators for a peace settlement in the former Yugoslavia, is due to decide on a joint international response to the growing violations by Serbia of ceasefire agreements, human rights and the UN's "no-fly" zone.

Faced with growing evidence of the death and suffering wreaked on the Moslem population by the Bosnian Serbs' policy of "ethnic cleansing", both western and Islamic countries have been persuaded that diplomatic action and economic sanctions may not be enough to bring about a Serbian change of heart.

At a meeting of the Organisation of the Islamic Conference (OIC) in Jeddah yesterday Moslem countries appeared ready to make a formal appeal to the UN for international military intervention.

The consultative assembly of the nine-nation Western European Union defence organisation, meeting in Paris, has also recommended that member countries should study the possibility of military intervention to relieve the Sarajevo region, free Bosnian Moslems from Serb prison camps and end ethnic cleansing.

However, there is no evidence that the western powers, particularly the EC, are on the point of agreeing to military action that goes beyond the protection of humanitarian aid convoys, presently undertaken under the umbrella of the UN.

Among the leading western powers, only the US, which unlike Britain and France does not have any troops on the ground in Bosnia or other areas of the former Yugoslavia, has indicated that it would be ready to support military steps to enforce the UN ban on military flights over Bosnia. But British officials stressed in London yesterday that full-scale military intervention was only one of a range of options being discussed.

The one-day conference was originally proposed by France as a full-scale emergency ministerial meeting outside the Geneva-based UN-EC peace talks on the former Yugoslavia. But that idea was dropped after Britain, current chairman of the EC and host of last August's London conference on Yugoslavia, insisted that it should be in the form of an expanded committee of that conference.

None of the parties to the Yugoslav conflict have been asked to attend, as they were to the London conference, in the hope that their absence will facilitate agreement on effective international action.

Kohl rejects idea of 'Europe à la carte'

By Quentin Peel in Bonn

MR Theo Waigel, the German finance minister, yesterday urged member states of the European Community not to rush into economic and monetary union (Emu) too hastily, simply to preserve their national pride.

Clearly implying that a two-speed Europe was better than an unstable union, he rejected any suggestion that political pressure could be used to undermine the strict requirements of the Maastricht treaty on European union.

And Mr Helmut Kohl, the German Chancellor, warned that Europe could not indefinitely move at the pace of its slowest member states.

He was speaking as the German Bundestag voted overwhelmingly in favour of the ratification of the treaty, after a debate which was marked far more by doubts and misgivings than by outright enthusiasm. The vote was by 543 votes to 17, with eight abstentions.

Chancellor Kohl spoke against any attempt – particularly from Britain – to try to enlarge the EC into a "glorified free trade area". He also rejected the concept – with both Britain and Denmark under suspicion – of turning the EC into "Europe à la carte", by allowing member states to pick or choose the bits they wanted to belong to.

Chancellor Kohl and Foreign Minister Klaus Kinkel (left) listening to Finance Minister Theo Waigel during the Maastricht debate

Mr Klaus Kinkel, the foreign minister, expressed his fears about the increased powers of the German federal Länder in future EC negotiations, as enshrined in new amendments to the German constitution. Foreign policy must remain the prerogative of central government, he said.

Mr Waigel, who comes from the fiercely independent state of Bavaria, disagreed, saying the strengthening of federal controls over the central government was all to the good.

And then speaker after speaker worried about the lack of democratic controls over the integrated European institutions, because of the failure to give enough powers to the European parliament.

The message was clear: the vast majority of the German political establishment remains wedded to the concept of European integration, above all to lay to rest any revived fears of German nationalism and hegemony. Yet doubts about the details, not least about the democratic control of European institutions, and about the future stability of a single European currency, have not been laid to rest. The result is that the Bundestag is insisting on a decision before embarking on the last stage of Emu, to determine if the convergence criteria have been observed by all EC states planning to join. It is also writing in to the German constitution that no further steps to European union are possible without adequate democratic controls.

Brussels agrees strategy to help revive growth

By David Gardner and Andrew Hill in Brussels

THE European Commission wants EC leaders to earmark nearly Ecu7.7bn (£6.2bn) as the kernel of a co-ordinated strategy, to be discussed at next week's Edinburgh summit, to get Europe's economies moving again.

The strategy, approved by the Commission yesterday suggests the money would consist mostly of soft and temporary loans for infrastructure investment programmes, and the redirection of part of EC spending on research and training.

Mr Henning Christophersen, economy commissioner, said yesterday the Community needed "a good psychological signal from the European Council [in Edinburgh] which would give us something on which we could build a growth initiative".

The plan is consistent with earlier ideas for the EC to provide "seed-money" to revive economic growth, but falls far short of widespread reports that Brussels was preparing an Ecu50bn-Ecu60bn reflation package.

The document it approved yesterday calls for:

- A new European Investment Fund able to lend Ecu2bn over four years for infrastructure and small to medium-size enterprises. The European Investment Bank would pay in 40 per cent of the Ecu400m capital, with the rest split between the EC budget and unspecified private financial institutions. The hope is that this could "support" investments of up to Ecu10bn.
- An Ecu5bn loan facility to support trans-European networks, normally transport, including those from western to eastern Europe where there is clear "mutual interest". These loans, raised on international capital markets, would be for "a limited time". There would be 10-15 per cent loan subsidies to participating east European nations, which the Commission suggests the London-based European Bank for Reconstruction and Development might help finance.
- New facilities for immediate retraining (at a cost of Ecu200m in 1993) for workers made redundant, "so as to avoid a loss of skills and motivation".
- Redirection of Ecu400m in R&D spending to improve industrial competitiveness, in areas like computer-aided design and manufacturing, advanced telematics, and laser processing.

Germany's citizenship challenge

Judy Dempsey on the hurdles placed in the way of those seeking naturalisation

OBTAINING German citizenship is largely a question of German blood, said Mr Michael Schlikker a 31-year-old legal expert at the Federal Office for Problems of Foreigners.

Leafing through a heavy tome, he finds article 5.7 of the 1913 Reichs- und Staatsangehörigkeitsgesetz, or Imperial and State Citizenship Law

"Through birth, one can acquire citizenship if the legitimate child has a German parent; and if an illegitimate child has a German mother..."

This short article means that the 6.2m foreigners in Germany have little chance of obtaining German citizenship.

Yet as the government and the opposition Social Democratic Party prepare to resume talks on amending the country's liberal asylum laws to curb the influx of foreigners, there is a growing consensus that what Germany really needs is an immigration law.

Many legal experts believe that without such a law, there is little chance of integrating foreigners into German society, and the possibility of social unrest could increase.

Under current regulations, there are some opportunities to obtain German citizenship. For instance, if a Russian marries an ethnic German, and both decide to live in Germany, the ethnic German, or Aussiedler has by law the automatic right to German citizenship, and the Russian can be naturalised almost immediately. However, if a Russian (or any other nationality) marries a German in Germany, remains married for two years, and lives without interruption for five years in the country, only then can he or she apply for citizenship. There is still no guarantee that the application will be successful. To obtain citizenship, the spouse must have no criminal record, a job, a fixed abode, fluency in German, and a knowledge of German culture.

A foreigner who is not married to a German, must meet these conditions as well. In addition, he or she must have lived in Germany for 10 years before lodging an application. After a further five years, when the heavy weight of German bureaucracy has run its full course, the foreigner will be naturalised. But in common with all applications, original citizenship must be renounced because Germany does not allow dual citizenship.

In recent years, some concessions have been made toward integrating the children of the Gästarbeiter – those invited to Germany in the early 1960s to make up the labour shortfall.

However, children born in Germany of non-German parents can only apply for citizenship between the ages of 16 and 23, again under certain conditions. These include residence in Germany for at least eight years, the renouncing of previous citizenship, and six years at a German school.

Ms Cornelia Schmalz-Jacobsen, head of the foreigners office, says many Turkish teenagers want citizenship but their parents prefer them to retain Turkish citizenship.

"Its disgraceful that we make it so difficult for them to become German citizens. They will always regard themselves as foreigners," she added.

Refugees who have recognised refugee status in Germany, which means that they can live and work in the country, are confronted with a maze of obstacles before they can gain citizenship.

"The refugees has no legal entitlement to citizenship," said Mr Walter Brill, a legal officer at the Bonn-based United Nations High Commission for Refugees. "It is discretionary. There is never really a situation where the applicant has fulfilled all the conditions for citizenship because it is not stated in the law," he added.

Moreover, even if the refugee's application is treated favourably, there is another hurdle: original citizenship must be renounced. This is often difficult because the applicant must seek permission from those same authorities which forced the applicant to flee in the first place.

Mr Brill agrees that it is time for Germany to introduce an immigration law which would give foreigners easier access to citizenship. "The climate is finally changing," he said. But Mr Schlikker still wonders if the right wing of the establishment is prepared to dilute German blood as the price for a heterogeneous society.

NOT SO WELCOME: Refugees in Magdeburg yesterday, the windows of their hostel smashed by stones. Asylum seekers have little chance of becoming German citizens

Crisis in Greece as PM sacks cabinet

THE Greek prime minister, Mr Constantine Mitsotakis, sacked his entire cabinet yesterday, promising a new one within 24 hours, Reuter reports from Athens.

He said he wanted a free hand to reshape the conservative government after months of internal feuding over his handling of the economy and foreign policy.

According to his spokesman, Mr Mitsotakis, 74, "asked for the resignations of the cabinet members. He will go ahead with a reshuffle. Tomorrow at noon he will swear in the new ministers".

The prime minister, with a one-seat majority in the 300-seat parliament, tried to whip dissenting deputies from his New Democracy party into line during a stormy meeting on Tuesday. But he faced renewed accusations after the session of being out of touch with ordinary people in pushing through a harsh austerity and economic reform programme aimed at trimming Greece's $75bn national debt.

Political commentators said all cabinet seats were open and there was no early betting on new names to take up the key ministries of defence, national economy and foreign affairs.

If Mr Mitsotakis replaced Mr Mihalis Papaconstantinou as foreign minister and Mr Stephanos Manos at economy, it would mark a sea-change in government direction.

Mr Manos, a no-nonsense technocrat, has made no concessions to powerful special interest groups while driving through the austerity programme. Last month he earned the government its first praise from the European Community for its economic policies, especially his unpopular decision to force through privatisation and to raise taxes to meet 1992 budget revenue targets.

Mr Papaconstantinou, a veteran politician, has been overseeing a campaign to block international, especially EC, recognition of the former Yugoslav republic of Macedonia. One of the Balkans' most obscure but potentially explosive disputes, the recognition issue has stirred deep nationalist feelings in Greece. Failure to hold the line at the Edinburgh summit next week could lead to the fall of Mitsotakis. The former Yugoslav republic is accused of having territorial ambitions against Greece's Macedonia province.

Danish workers count cost of No vote

By Hilary Barnes in Copenhagen

DENMARK'S No to the Maastricht treaty has cost the country 100,000 jobs, according to Mr Thor Petersen, economy minister. He said the vote against the treaty in the referendum in June had contributed to currency unrest, high interest rates and uncertainty about Denmark's future relationship with the European Community.

Mr Petersen was commenting on a business confidence survey showing that 42 per cent of senior managers in large Danish companies expect to cut their workforce this winter.

Recent unemployment figures indicate the minister's estimate of job losses may be exaggerated. Seasonally adjusted unemployment rose from 310,000 in May, the month before the referendum, to 315,000 in September, the most recent month for which the figure is available.

Although Danish industrialists accept that the No vote has dampened business confidence, Mr Jorgen Hansen, director of the Federation of Danish Industries, describes the position in less drastic terms than Mr Petersen. "There is a widespread wait-and-see attitude," he says.

Mr Birger Riisager, chief executive of FLS Industries, the world leader in supplying machinery and know-how for the cement-making industry, says his company is being cautious about making new commitments until next spring, when another referendum is expected to take place. "If Denmark then decides to leave the Community, a new situation will arise. FLS will have to put its effort into other countries," he says.

Mr Hugo Schroeder, chief executive of Scandinavian Holding, which includes Skandinavisk Tobak, the tobacco goods group, and a large office furniture group, says that the Maastricht vote in June had not affected the group's investment decisions so far. But if Denmark voted No again, the group would have to consider whether to make more of its investments outside Denmark.

If Denmark again says No, the government has admitted it would have to withdraw from the Community. "We should then presumably have the same status as the European Economic Area countries, which means that we would be part of the internal market, but we would have no influence when the internal market's rules are made, a very unsatisfactory situation," says Mr Hansen.

If Denmark withdraws from the Community and loses access to EC markets for its agricultural products, serious consequences will arise for agriculture and related food processing industries.

A recent study by the Agricultural Council, grouping the farmers' unions and other farmers' organisations, said that without the Common Agricultural Policy, agricultural exports could fall by up to DKr33bn ($3.5bn), about 14 per cent of total merchandise exports. Up to 100,000 jobs – about 4 per cent of the country's total labour force – could be lost on farms, and in abattoirs, dairies and agricultural supply industries.

"The whole rural economy is in trouble because of the current uncertainty," says Mr H.O.A. Kjeldsen, president of the Agricultural Council, "not just the farms, but the suppliers, the retailers, everyone".

At MD Foods, Denmark's largest dairy business and one of the largest in Europe, the prospect of Danish withdrawal from the EC is regarded as a catastrophe of such dimensions that it just cannot happen, says Mr Peter Kjelstrup, communications manager.

"It would mean the slaughter of half the Danish dairy herd and a halving of MD Foods," he says.

For the moment, the uncertain situation means that MD Foods' investment spending would be slightly lower this year than last and a programme for acquisition of dairies abroad is being postponed.

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Politicians arrested over Italian murder

By Robert Graham in Rome

FOUR PROMINENT politicians in Reggio Calabria were arrested early yesterday, together with seven members of the Mafia, on charges of involvement in the murder three years ago of Mr Lodovico Ligato, former head of Italy's state railways.

Magistrates alleged they had all conspired to murder Mr Ligato because they feared he might compete for public works contracts in southern Italy along with rival clans of the local Mafia, the 'ndrangheta.

Mr Ligato, an ambitious local Christian Democrat, had been forced to resign from heading the railways after a contract scandal in 1988.

Yesterday's arrests raised the possibility of further evidence of the links between politicians and organised crime in southern Italy. These have been long suspected but only in the past two months has concrete evidence begun to emerge.

Three of those arrested yesterday are Christian Democrats and one is a Socialist. All four politicians are already under investigation for alleged corruption involving public works contracts in the city, as are eight other leading members of the council.

The city of Reggio Calabria is due to hold municipal elections on December 13, following the arrest of the entire 23-strong council on corruption charges in September. Magistrates have also intimated that some members of the former council were linked to the Mafia.

The Christian Democrats arrested were Mr Pietro Battaglia, a former deputy and twice mayor of the city, Mr Franco Quattrone, a former deputy and junior minister, and Mr Giuseppe Nicolo, the party's regional secretary. Mr Giovanni Palomara, the Socialist was also a former mayor of Reggio.

Yesterday, there were calls in Reggio for the postponement of the municipal elections.

Mr Ligato is alleged to have made an alliance with a rival Mafia group which had hoped to remove a sizeable share of the region's public works contracts, threatening to upset the current structure of contacts between the 'ndrangheta and local politicians. He was killed outside his house after he had been entertaining some guests. He was gunned down by two people on a motorcycle.

Norway expects slight upswing in economy

By Karen Fossli in Oslo

NORWAY'S central bank said yesterday it expected a moderate upswing in the economy in the period to 1996, with low inflation and a continued rise in the current account surplus.

The bank warned the upturn would be insufficient to reduce unemployment unless wage growth is restrained. Unemployment is currently 7.9 per cent, a post war record and the biggest headache for the minority Labour government.

The central bank calculates that if wage growth can be restrained to 2 per cent below Norway's main trading partners, there could be a modest decline in unemployment up to 1996, followed by stronger falls thereafter.

Norway's GDP growth rate is expected to slow markedly in 1993 to 0.6 per cent from 2.6 per cent this year, and 1.1 per cent in 1991. The slowdown is explained by a stabilisation of daily crude oil output in 1993 at today's level of 2.2m barrels a day from a sharp increase from 1991, when it was just under 2m barrels a day.

Inflation will remain at just above 2 per cent and the current account surplus will fall to NKr18bn ($2.8bn) in 1993 from NKr23bn, or 3.2 per cent of GDP this year, then rise to NKr47bn in 1996 due to another sharp increase in crude oil output, the central bank said.

Swedish industry boost

SWEDISH industry can expect its competitiveness to improve by 15 per cent next year as a result of the floating of the krona, according to forecasts from the ministry of finance, writes Robert Taylor in Stockholm.

At the same time, unemployment will rise from 4.8 per cent this year to 6.2 per cent in 1993 and 7.0 per cent in 1994 while disposable income will fall by 3.8 per cent after a 2.6 per cent improvement in 1992. Private consumption is set to drop by 2.0 per cent in 1993 after a 1.1 per cent decline this year.

The estimates assume a 10 per cent decline in the value of the krona against the Ecu since the krona was floated last month.

Most French and British couples prove faithful

By Clive Cookson, Science Editor

BRITISH and French sex habits differ little and few men and women are unfaithful to their partners, according to two studies published today.

Both Britain and France are populated mainly by faithful heterosexual couples, the studies indicate. They are the first large surveys of sexual behaviour to be carried in the two countries.

According to interviews with random selections of 20,000 people in each country, only about 6 per cent of women and 13 per cent of men have had more than one sexual partner within the past year. And just 4 per cent of Frenchmen and 6 per cent of men in the UK say they have ever had any kind of homosexual experience.

The spread of Aids during the 1980s prompted both studies. Health authorities felt handicapped in planning strategies to prevent HIV infection by their ignorance about people's sexual behaviour.

The French survey, conducted by the Agence Nationale de Researches sur le Sida, was funded by the government. But Mrs Thatcher, then prime minister, refused to let the Department of Health support the UK study which she saw as an invasion of privacy; the Wellcome Trust, the largest medical charity, provided the £750,000 required.

The preliminary results, published in the journal Nature, are unlikely to shock Lady Thatcher but the researchers say they will help those fighting Aids and other sexually transmitted diseases. Yesterday the scientists said the apparent absence of widespread promiscuity seemed reassuring.

Although one British man in 16 reported having had some kind of sexual experience with another man, only one in 28 had ever had a "homosexual partner" and one in 74 had a partner within the past five years. But in London one man in 20 had a homosexual partner in the last five years.

One interesting finding is that people in the highest social classes (managerial and professional) are twice as likely as manual workers to have had two or more sexual partners within the past year. The researchers believe this is because higher incomes and greater mobility give many more opportunities for sexual encounters.

The French survey showed an encouraging increase in the use of condoms by those most at risk from HIV infection.

Although any survey of intimate personal information is liable to be distorted by the participants lying, the researchers said both studies contained consistency checks which gave them confidence in the findings. The fact that men claimed more heterosexual partners than there were women acknowledging partnership may be due partly to male boastfulness and female reticence, but it can also be explained by the existence of prostitutes.

Poland to reduce its steel capacity

By Christopher Bobinski in Warsaw

POLAND'S steel-making capacity is to be cut by a third over the next 10 years in a $4.5bn modernisation programme approved by the government this week.

The programme foresees the closure of two mills and reduced capacity at four more of the country's 26 steel plants. This should bring output down to 11.7m tonnes of steel in the year 2002 compared with 15m at present.

In 1980, 19.5m tonnes of steel were produced and 13.6m tonnes in 1990. Output this year is expected to reach 9m tonnes.

Under the new programme the sector's 124,000 workforce will be reduced to 44,000 over the 10-year period.

The government is looking to the World Bank to provide about $300m in financing for the plan which foresees the spending of $1.8bn on new capital investment. Another $1.8bn is to be spent on refurbishing existing plant.

The Sedzimir mill in Krakow and that at Katowice, the two largest in the country, are to be merged.

Three continuous steel casting lines, due to come on stream between 1993 and 1995, are to be installed at the new company.

The plan sees Polish steel exports reaching 2m tonnes by the end of the century compared to sales abroad of 3.2m tonnes in 1991.

Barriers to sales of steel to the European Community are to be removed by 1998 under Poland's association agreement with Brussels.

Poland and other eastern European countries have been criticised by west European steel makers for producing with unfair subsidies and undercutting western prices. The EC has imposed anti-dumping tariffs on exports of seamless steel tubes by Poland and its former Comecon neighbours.

● The European Bank for Reconstruction and Development has extended a $6.6m modernisation loan to ABB Dolmel in Wroclaw. Dolmel was bought by ABB in 1990.

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Hungary passes tough budget

By Nicholas Denton in Budapest

HUNGARY'S government yesterday pushed through parliament a 1993 budget designed to contain the spiralling deficit and return the country to the good graces of the International Monetary Fund.

The conservative coalition agreed an unpopular increase in value-added tax to help keep next year's budget deficit down to Ft185bn ($2.2bn), equivalent to 5.9 per cent of forecast GDP, the level which the IMF had indicated it would accept.

The passage of the budget should allow a resumption of the IMF's SDR1.14bn ($1.57bn) three-year programme of credits for Hungary.

Hungary was suspended earlier this year because of budget overruns tarnishing its claims to be eastern Europe's star economic performer.

The main change in taxation was the imposition of 6 per cent VAT on staple foods and most other zero-rated products against impassioned protests during which dozens of people started hunger strikes.

Mr Mihaly Kupa, the finance minister, justified his budget, which has come under attack from all sides, as a balance of thrift against the public's "ability to tolerate". Another senior official described the budget as the toughest imaginable in the political circumstances.

The government also defends the deficit as the price of banking and bankruptcy reforms and is fearful that tougher measures on public finances would snuff out the forecast fragile economic recovery in 1993.

Both opposition and independent commentators doubted that the assumptions underlining budget calculations were realistic and said that the combined central budget and social security fund deficit would exceed Ft270bn or 8.6 per cent of GDP.

FUTURE IN DOUBT: Russian premier Yegor Gaidar is fighting to save his reform plans and his own job

Gaidar reveals big Russian arms sales

By Leyla Boulton in Moscow

RUSSIA has recently sold more than $2bn worth of weapons abroad, Mr Yegor Gaidar, Russia's acting prime minister, said yesterday. This included a $1bn contract with China and deals for $650m and $600m with India and Iran. He also mentioned "major contracts with Syria and other countries".

Mr Gaidar revealed this in the course of a powerful defence of his market reforms to the Congress of People's Deputies. Russia would continue to export weapons, he said, but he promised to avoid conflict zones. "We are not going to stoke conflicts by supplying arms to hot spots, but there are no reasons to abandon this important market," he said.

The acting premier, who is fighting for his political life against increasingly powerful opposition to his policies, told the country's full parliament that Russia had a choice between radical reforms and joining the ranks of third world dictatorships. He dismissed claims by Mr Ruslan Khasbulatov, the parliament's chairman, that he was depriving the country of kinder Scandinavian market economics in favour of a harsh US model.

"A criminal slowing of restructuring an economy [dominated by the defence industry] will drag us further into underdevelopment... If we work really well and privatise half the economy, free the country from the reign of bureaucracy, then we will be able to discuss what kind of society we want," he said.

While admitting to a series of mistakes by his economic reform team over the past year, he said there was little room for manoeuvre on basic issues such as financial stabilisation to fend off hyperinflation, and an industrial policy which made selective use of scarce resources.

But he also promised practical steps which the country needed to better implement reforms. From January 1, Russia would operate proper borders with neighbouring republics so it could get a better grip on hard currency revenues lost through illegal exports of oil and other resources.

He claimed Russia would also enforce a new regime preventing other republics which used "the Russian rouble" to interfere with monetary policy.

Whether he continues as prime minister, which he sees as essential for pursuing "responsible reform", is yet unclear. His speech drew polite applause, but appears to have swayed few of the deputies intent on his removal.

"It was beautiful but my pockets are still empty," said Mr Yuri Gekht, leader of a conservative industrialist faction.

President Boris Yeltsin is in theory supposed to present Congress with a candidate for prime minister later this week. Given the unlikelihood of a favourable vote for a Gaidar-led cabinet, he is looking for alternatives. One option is to appoint himself premier once again to enable Mr Gaidar to continue unhindered as economic supremo.

Putting troops into Somalia is the easy bit

Without cash and commitment to a lasting settlement, the experiment is doomed, writes Julian Ozanne

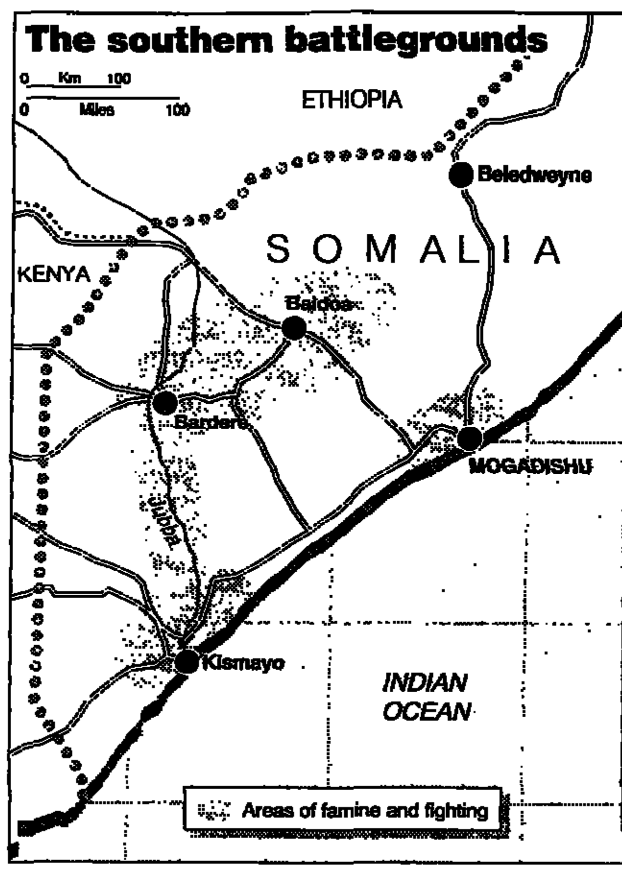
TROOPS from the US preparing to intervene in Somalia will encounter an unusual foe: fiercely individualistic Somali bandits and desert warriors hardened by the rigours of their nomadic lifestyle.

President George Bush's decision to offer up to 30,000 US soldiers to the United Nations to revive a defeated international aid effort to save hundreds of thousands of Somalis dying from war-induced starvation will run into special difficulties.

Somalia is no Vietnam or Iraq. There is no mass modern army in Somalia and the motivation of the Somali fighters is virtually non-existent. Instead US troops will have to confront undisciplined and poorly armed rag-tag gunmen – often drugged on the narcotic stimulant qat – who kill and maim their own people without remorse or purpose.

Groups of teenagers thrive on the anarchy they have created. The greatest fear for the safety of US soldiers will be isolated ambushes and blasts of stray gunfire from speeding customised "Mad Max" trucks.

Furthermore the US force will have to confront a war-shattered country with poor dirt roads and no electricity, water system or social infrastructure where temperatures soar to more than 100 degrees of dry heat. Huge parts of the arid heartland are inaccessible and sparsely populated, yet it is exactly in these southern areas – from Kismayo to Bardere and across to Baidoa – where people are dying most.



Somali hired gunman guards food aid in the port of Kismayo

Few believe the Somali nation will rise up against external intervention. The ruthless warlords who control the divided country have at best a few thousand dissolute gunmen under their command and do not have popular support. But the chances of opposition by Somalis to the US intervention could be lessened if the Americans work closely with the UN and with Somali politicians and businessmen and use the radio to explain their purpose to the Somali people.

Many Somalis will be enthusiastic about an intervention with the limited goals of feeding the starving, ridding the country of the ruthless and bloody rule of the warlords and leaving behind a legacy of law and order and a new political arrangement. But months of aggressive propaganda by the warlords against "western imperialism" have created suspicions among Somalia's illiterate nomads that the west is trying to colonise the country, perhaps to steal fictional oil reserves.

These fears will be exploited by the warlords but they can be allayed if the US and UN puts in place a credible Somali consultative assembly or forum of the nation's more respected citizens, many of whom are in exile.

However, there is concern among those involved with Somalia that Washington's hasty plans are at best half-baked and at worse could backfire with terrible consequences. Statements by the White House that the 20,000 troops promised for the mission could be in and out of Somalia by January 20 next year, the date of the Bush-Clinton handover, have alarmed aid workers and UN officials in Somalia.

Observers concede that with the success of the US aid operation in northern Iraq, the American force could move vast quantities of food and medicine and temporarily end starvation within weeks. But they point out that in Iraq President Saddam Hussein was fearful of antagonising the US into further military involvement and in effect decided to allow the US operation to proceed. He ordered his disciplined troops not to oppose the operation.

The deeper United Nations involvement expected in Somalia, under which US troops would be authorised to use force to ensure aid shipments to the starving, has the following aims, as outlined by Secretary General Boutros Boutros Ghali, AP reports from the UN in New York.

- **Confiscate the fighting factions' heavy weapons and put them under international control.**
- **Disarm the fighters.**
- **Ensure the safety of international relief personnel and the 500 UN peacekeepers already in Somalia.**
- **Establish a ceasefire.**
- **Replace the force that restores order with UN peacekeepers when fighters are disarmed and heavy weapons are brought under international control.**

In Somalia there is no similar fear of provoking the US and no chain of command and control between the warlords and the gunmen. As soon as the US troops pulled out of Somalia, the country could slide back into anarchy, and mass starvation would quickly return.

Experienced aid workers say the only possible long-term solution is to launch a massive humanitarian operation in tandem with efforts to broker a political settlement capable of bequeathing the country a climate of peace and law and order. They point out that it is the civil war and insecurity which has caused the deaths from starvation and frustrated relief efforts, and not a natural disaster such as drought. Without resolving the conflict it will be impossible to eliminate starvation.

Leaving behind a stable environment will require a working consultative assembly which cannot be blackmailed by the warlords. A well-paid and trained Somali police force will have to be established quickly and put under the authority of an interim administration. Once the police are in place and the cycle of criminality broken, foreign troops can retreat to a minimum role and the UN can sponsor a national conference in a climate of peace to prepare the way for elections.

But any Somali administration put in power by the UN will have to be heavily funded to start the long process of reconstruction ensuring that resources are distributed equitably to all Somali clans.

As the US and UN prepare to undertake a massive experiment in Somalia, which may set precedents for intervention in other countries such as Yugoslavia and Cambodia, the real question which remains unanswered is whether they are prepared to make the necessary long-term financial commitment needed to make it work.

Without that commitment the experiment is doomed to failure.

Observers held by Khmer Rouge

By Victor Mallet in Phnom Penh

SIX United Nations peacekeepers were being held hostage by Khmer Rouge guerrillas in Cambodia last night after more than 24 hours in captivity, the UN Transitional Authority in Cambodia (Untac) announced.

A further six UN staff were injured by landmine explosions yesterday and Lt-Col Thierry Monet, the French chief of Untac's military operations, was injured when the helicopter in which he was travelling was hit by gunfire. He was on his way to assist in negotiations over the fate of the six captives.

The incidents were a further indication of the increasing tension in Cambodia. Untac is registering voters for elections in May next year without having succeeded in disarming the four main factions as originally planned.

The Khmer Rouge is refusing to abide by a peace plan it signed 13 months ago in Paris and some of its guerrillas have been telling Cambodian villagers not to take part in the election. At the same time government forces and Khmer Rouge units are preparing to do battle as usual now that the rains have ended.

The six men held by the Khmer Rouge were unarmed military and naval observers. They include three Britons, Lieutenant Scott Verney of the Royal Navy and army officers Captain Richard Williams and Lieutenant-Colonel Mark Walton. A New Zealander, a Petty Officer Oxenham, and two unidentified Filipinos are also being held.

In London the Foreign Office condemned the attempt to undermine Untac's work in Cambodia and called for the immediate release of the six. Mr Douglas Hurd, the foreign secretary, contacted Mr Boutros Boutros Ghali, the UN secretary general. India, the current president of the UN Security Council, was expected to see the Cambodian representative at the UN.

Carrying only walkie-talkies, the observers were investigating troop movements of Khmer Rouge and government forces from an inflatable boat on a river near Kompong Thom when they were apprehended at a Khmer Rouge checkpoint.

Untac said it appeared the guerrilla commander suspected the observers of spying for the government. Untac officials said it appeared the six men did not have an interpreter with them.

Untac, which said the men were unharmed when radio contact was last made in mid-afternoon, announced that it had asked a Khmer Rouge representative in Phnom Penh to accompany a UN team to the area to secure the release of the captives, but the Khmer Rouge had not been co-operative.

"We are at this stage gravely concerned," said Mr Eric Falt, Untac spokesman. "We have been unable to secure a NADK (Khmer Rouge) liaison officer to accompany us. This is very unfortunate and surprising."

He said of the six captives: "They are being held hostage and they shouldn't be." He declined to give details of negotiations which took place yesterday between Untac and the guerrillas.

Britain said last night that the Untac chief liaison officer was on the way to the area to try to negotiate their release.

It is the first time that any of the 16,000 UN military personnel in Cambodia have been held captive for any length of time. Khmer Rouge leaders have refused Untac forces access to the territory under their control, but in a highly mobile guerrilla war it is almost impossible to say where one faction's territory ends and another's begins.

Two of the men injured in landmine blasts were Tunisian policemen whose vehicle ran over an anti-tank mine on a road near Siem Reap yesterday morning. Three Indonesian policemen and a Nepali were injured two hours later when their vehicle detonated another anti-tank mine in the same place. Untac personnel were then ordered to stay off the road until it had been cleared.

One of the Tunisians has already had a leg amputated, and it is feared that one of the Indonesians will also lose a leg.

Kinshasa tension

Zairean security forces sealed off ministry buildings in the capital Kinshasa yesterday as tension rose between President Mobutu Sese Seko and his pro-opposition prime minister, Mr Etienne Tshisekedi, Reuter reports from Kinshasa.

Chinese leaders 'don't want to deal with Patten'

By Simon Holberton in Hong Kong

CHINESE leaders do not want to deal any more with Mr Chris Patten, Hong Kong's governor, because they do not trust him, one of China's top advisers in Hong Kong said yesterday.

But Mr T S Lo, who was a member of the colony's Legislative and Executive Councils in the early 1980s and is one of Beijing's 44 advisers in the colony, sought to allay concern that China would move to set up a separate institution to vet agreements the Hong Kong government made with business.

On Monday China said that any agreement the Hong Kong government entered into would be invalid if not first approved by Beijing. This promoted widespread concern that China was attempting to bring the process of government in the colony to a standstill.

Yesterday the Hong Kong stock market continued its slide, with the Hang Seng index down 90.06 points to 5,411.65. It has lost 9.6 per cent so far this week.

"When they talk about the Chinese side's agreement they are talking about the system that has been set up already – the Sino-British Joint Liaison Group and anything created under those auspices," Mr Lo said.

"I can't visualise a de facto shadow committee which adjudicates on the validity of contracts entered into between 1984 and 1997."

On his visit to Beijing Mr Lo met Li Peng, China's prime minister, and Lu Ping, head of the Hong Kong and Macao Affairs Office of the Chinese cabinet. His comments were seen as authoritative, but it is unlikely that China will agree to any big contracts until Mr Patten withdraws his proposals for more democracy.

Mr Lo indicated that China would not back down on its opposition to the governor's proposals. He said China feels that the Basic Law – the Beijing drafted constitution for Hong Kong which comes into effect when the colony reverts to Chinese sovereignty in 1997 – provides for a lot of democracy.

He said that Chinese officials feel that all Mr Patten is doing is breaching deals already reached between Britain and China. "Because of that they feel that they don't want to deal with him any more."

Yesterday Mr Patten repeated in an interview with the BBC that the fate of his blueprint for constitutional reform would be decided by the Legislative Council. He said that while he could not introduce more democracy than the community wanted, he "could not go less far than the community wants me to go."

"At the end of the day, these matters will be decided in Hong Kong by the Legislative Council. . .I can't go beyond what the Legislative Council wants to do."

Japanese budget becalmed in parliament

By Charles Leadbeater in Tokyo

THE Japanese supplementary budget needed to implement most of the Y10,700bn (£57bn) emergency public spending package announced in August is becalmed in the upper house of parliament. It passed the lower house only after four weeks of tortuous debate.

The budget itself has been hardly discussed. Most argument has centred on which politicians, aides and businessmen should be questioned in parliament over their involvement in the Tokyo Sagawa Kyubin financial scandal.

The budget committee of the lower house passed the budget after the ruling Liberal Democratic party acceded to opposition demands that a top aide to Mr Shin Kanemaru, the party's fallen kingmaker, should testify over the scandal.

Mr Kanemaru resigned from the parliament after being fined Y200,000 for accepting an illegal Y500m donation from Tokyo Sagawa Kyubin, the trucking company. Mr Kanemaru said that his top aide, Mr Masahisa Haibara, distributed the money to about 60 LDP politicians.

The LDP has also indicated that it will call Mr Noboru Takeshita, the former prime minister, and Mr Kiyoshi Sagawa, the trucking company's former president, to give evidence to the upper house. Mr Takeshita has already given evidence to the lower house. However, the opposition is pressing for other figures in the scandal, including Mr Kanemaru, to give evidence.

The delay makes it increasingly unlikely that the budget will be passed by both houses by December 8, when the current extraordinary session of parliament is due to end. It is likely the session will be extended by several days to allow further testimony on the scandal to be heard.

Meanwhile, the severity of the downturn which prompted the supplementary budget was reflected in figures yesterday which showed that the value of consumer electronics production in September was 20 per cent down on the same month last year.

The decline in industrial electronics products output, however, has slowed, with production value down 10 per cent in September from the same month last year.

The value of camcorder production – about 4.4 per cent of consumer electronics output – was 29 per cent down in the first nine months of the year compared to the same period last year, according to the figures published by the Electronics Industry Association.

Kuwait to investigate investors

By Mark Nicholson in London and Peter Bruce in Madrid

KUWAIT's parliament is to appoint a nine-member committee to investigate management of the Gulf state's overseas investments and the affairs of the London-based Kuwait Investment Office (KIO).

The investigation, the second into its foreign investments, is a measure of the concern over suspected improprieties in the management of Kuwait's previously abundant foreign holdings.

Meanwhile, the KIO's public relations advisers in Spain yesterday added to the confusion surrounding the Office's intentions there by announcing that trial lawyers had been appointed to study and execute ways to prosecute the former management of Grupo Torras, the KIO's Spanish holding company.

Some argue that it is still far from clear that the KIO's legal advisers have been able to identify charges that could be made with any likelihood of success in Spanish courts.

The value of Kuwait's foreign investments, which stood at around $100bn before the Gulf war, is now believed to have shrunk to nearer $30bn after a sell-off to pay for the costs of the Gulf war.

Mr Nasser Abdulla al-Rhodan, the finance minister, told parliament on Tuesday that Kuwait would have to continue liquidating its foreign investments to finance the government's budget deficit.

Chief Mangosuthu Buthelezi (above) was yesterday criticised by South African President F W de Klerk for his plan to create a multi-racial autonomous state in Natal province, Patti Waldmeir writes from Johannesburg. Mr de Klerk said the plan would exacerbate township violence and impede the resumption of multi-party democracy talks.

On Tuesday Chief Buthelezi, leader of the mainly Zulu Inkatha Freedom party, said he would hold a referendum to test popular support for merging the Zulu homeland he heads with white-run Natal province. His insistence that he would go ahead with the plan even without multi-party approval was seen as a veiled threat to declare unilateral independence from Pretoria unless Natal is granted autonomy within a federal South Africa.

Senior Indian official charged

By Stefan Wagstyl in New Delhi and R C Murthy in Bombay

A FORMER leading Indian civil servant and his two sons were yesterday charged with accepting illegal payments of "tens of millions of rupees" from foreign companies.

Mr V Krishnamurthy, a former top figure in state-owned industry, was accused of accepting secret commission payments from unnamed overseas companies while chairman of two state companies - Maruti Udyog, a car manufacturer, and the Steel Authority of India.

The Criminal Board of Investigation claimed to have found evidence in support of its allegations during an investigation of Mr Krishnamurthy's role in the Rs35bn (£820m) Bombay securities market scandal.

Yesterday it raided homes and offices belonging to Mr Krishnamurthy and his family. The move shows the board's determination to press home its investigations of the affair even against highly placed figures like Mr Krishnamurthy. Mr Krishnamurthy has extensive political ties, and this raised fears in Delhi last night that the political impact of the scandal could widen.

A board of investigation official said the commissions were paid by multinational companies in connection with transactions carried out with government enterprises controlled by Mr Krishnamurthy in his capacity as a public servant. Mr Krishnamurthy's sons, Mr Chandra Krishnamurthy and Mr Jaykar Krishnamurthy, as well as Mr Binoy Jacob, an associate, were also charged.

The board said "tens of millions of rupees" in commission payments were deposited into foreign accounts of Apten Marketing of Delhi and Link Universe, a Hong Kong-registered company, both owned and controlled by Mr Krishnamurthy's sons and Mr Jacob. The companies alleged to have made the payments were not named.

Mr Krishnamurthy has previously been charged with illegally accepting Rs2.3m from Mr Harshad Mehta, a stockbroker at the centre of the securities market scandal, in return for political favours.

Meanwhile the Reserve Bank of India, the central bank, has separately refused permission for the local chief executive of Bank of America, the US bank which is involved in the securities market scandal, to extend his posting in India.

Under Indian regulations, the central bank must approve the appointment of all top executives at both Indian and foreign banks. Mr Vikram Talwar, head of Bank of America's operations in India, had applied for an extension well before his three-year permit expired on Monday.

Bank of America said the refusal to renew his permit was unconnected with the scandal. The Reserve Bank said the decision was taken "in the normal course" of events. But bankers in Bombay said the decision seemed to be linked to the strong criticism of foreign banks involved in the scandal.

Indonesia 'tortured East Timor leader'

By Peter Wise in Lisbon and William Keeling in Jakarta

PORTUGAL has accused Indonesia of using torture to force Mr Xanana Gusmao, the captured East Timor resistance leader, to renounce his cause on television.

In his statement Mr Gusmao called on fellow Fretilin guerrillas to surrender and abandon the struggle for independence in the former Portuguese colony.

Portuguese President Mario Soares said Mr Gusmao had been tortured and threatened. He had had no lawyer and no opportunity to defend himself.

Mr Gusmao was shown on Indonesian and Portuguese television in a film shot by the Indonesian military being interviewed by Mr Abilio Osorio Soares, the pro-Indonesian governor of East Timor.

Reversing all his previous beliefs, Mr Gusmao, who has led the struggle against Indonesian rule from mountain strongholds for the past 16 years, said he acknowledged East Timor's integration into Indonesia as "progress".

Mr Gusmao appeared tired in the film.

The Indonesian government has accused Mr Gusmao of organising a pro-independence march in November last year in which more than 50 demonstrators were shot dead by troops.

Amnesty International, the London-based human rights group, said it appeared Mr Gusmao's statement was forced from him.

Indonesian officials have said Mr Gusmao will be treated according to the law and have assured foreign diplomats that he would not be maltreated.

Poor relations between Jakarta and Lisbon have led to Portugal blocking a trade agreement between the European Community and the six-nation Association of South East Asian Nations (Asean) in protest at alleged human rights abuses in East Timor.

Diplomats say the sharp exchanges over Mr Gusmao's treatment may jeopardise discussions between Indonesia and Portugal under the auspices of the UN scheduled for later this month.

Indonesian troops occupied East Timor in 1975 when the Portuguese colonial rulers withdrew.

Algeria joins Egypt in war on militants

By Francis Ghiles

THE ALGERIAN government is broadening the scope of its battle against Islamic militants by co-operating with the Egyptian authorities.

The moves come after 10 years of estrangement between the two countries following Egypt's signing of the Camp David peace agreement and their diverging positions following Iraq's invasion of Kuwait in 1990.

The Algerian government of Mr Belaid Abdessalam has declared "all out war" on the Islamic Salvation Front (FIS) which was banned last February after the cancellation of the second round of elections which the FIS was poised to win.

Mr Sasi Lamuri, Algeria's minister of religious affairs, visited Cairo last month. Mr Mohamed Ali Maghub, his Egyptian counterpart, declared that both countries were trying to stop the "export of the Iranian Islamic revolution".

Two weeks ago Algeria expelled seven Iranian diplomats, having withdrawn its ambassador from Tehran last winter following an Iranian press campaign against Algeria. Meanwhile the Egyptian and Algerian secret services are known to be working together on ways to control Islamic militancy.

For the Egyptian government, the fight against Islamic radicals has taken on a new dimension since Islamic groups began making sporadic attacks on tourists in Upper Egypt. A British tourist was killed and many German visitors were injured last month.

After Mr Abdessalam's declaration of "war" last week, the Algerian authorities banned FIS-backed trade unions such as the Islamic Workers Union (SIT) and thousands of private associations which, by late last year had virtually become a parallel administration in many Algerian towns.

Around 10,000 or so such associations sprang up in Algeria after riots in October 1988 broke the Front de Liberation National's monopoly on power as the country's single ruling party. Most associations are believed to have been controlled by the FIS.

The Algerian authorities also suspended those FIS-controlled town councils which had not been suspended earlier this year.

Terrorist attacks have killed an estimated 250 members of the security forces since the government declared a state of emergency on February 9. At least as many opponents of the regime have been killed and at least 2,000 Moslem fundamentalists are believed to be detained in camps in southern Algeria.

NEWS: THE AMERICAS

Talks with IMF called off

Governing in Brazil is put on hold

By Christina Lamb in Rio de Janeiro

"SERIOUSLY now. Let's start governing the country," was the caption under a cartoon of Brazil's President Itamar Franco addressing his cabinet on the front page of a Brazilian newspaper this week.

Ignoring the country's desperate need for direction, Mr Franco has opted to put governing on hold until the Senate judgment on suspended President Fernando Collor on December 18, expected to confirm his impeachment.

Tuesday night's decision to call off negotiations with the International Monetary Fund over a new accord was the strongest evidence of the confusion within the two-month-old administration, which has paralysed the country.

The querulous Mr Franco has cancelled a planned address to the nation, delayed a new wage policy and dithered over privatisation. Last week he cancelled a privatisation by fax and issued a decree putting himself in control of all prices in order to be able to readjust tariffs below inflation – in direct contradiction of IMF recommendations.

His rejection of the orthodox economic programme elaborated by Mr Gustavo Krause and Mr Paulo Haddad, the economy and planning ministers, because it was "too Collorite" almost caused the two men to quit last weekend.

Not only has Brazil failed to meet the targets of the $2.1bn (£1.4bn) accord signed in January, there seems little prospect of improvement. Inflation has been more than 22 per cent a month for the last year, the fiscal deficit is estimated at 7 per cent of GDP, domestic debt is at its highest since 1989, and tax receipts are down 25 per cent. GDP per capita has fallen 10 per cent since 1990.

Financial institutions are in chaos. The Federal Savings Bank has a $21bn hole. Petrobras, the state oil monopoly, is raising costly short-term money to cover $5bn owed by the government and other state companies. Mr Murilo Portugal, the Treasury secretary, says the government's cash situation is critical.

The lack of policy definition has destroyed hope of a rapid economic turnaround. Consultants are revising forecasts downwards weekly and the government research institute IPEA has changed its projections from a 2.5 per cent growth in GDP to a 1.5 per cent fall, despite an expected trade surplus of $15.5bn.

This is the backdrop to the economics team's reluctance to re-open talks with the IMF. The official reason for the delay was the congressional impasse over a $12bn fiscal reform project crucial to balance next year's budget. The project is unlikely to pass this year.

Congress has already slipped back into its old combination of inactivity and pandering to vested interests, slapping 72,000 amendments onto next year's budget. Bills on intellectual property, patents, and private concession of public services are all stalled, while a much-needed port deregulation has retreated.

This year had been seen as crucial for stabilisation because the next two years will be taken up with a referendum on the political system, a constitutional revision and elections for congressmen, senators, governors and president.

The hope is that after the definitive judgment on Mr Collor, Mr Franco will begin tackling the array of economic problems. But Mr Luiz Padovani of Trevisan consultants, says: "This may be wishful thinking. The great fear is that after December 18 we will see Itamar's real nationalist face."

Clinton warned on economic stimulus

By George Graham in Washington

US business economists have warned President-elect Bill Clinton that his planned economic stimulus may achieve little.

A survey by the National Association of Business Economists, published yesterday, showed a median expectation that the economic programme outlined by Mr Clinton during his election campaign would result in just 0.2 percentage points of growth more than expected from a second Bush term.

The economists said the investment tax credit and infrastructure spending outlined by Mr Clinton would have only a small effect on the US economy, but said that did not mean he should aim for a bigger fiscal stimulus.

"Our advice right now is to be cautious. Clinton needs to maintain the confidence of business and the markets," said Mr Joseph Duncan, the association's president.

The NABE survey shows a median forecast of 2.6 per cent growth in gross domestic product next year, with unemployment projected to fall to 7.2 per cent. Inflation is expected to remain around 3.4 per cent next year.

Strong economic data in recent weeks have led more economists to urge Mr Clinton to think again about the need for an immediate fiscal boost as soon as he takes office next month.

However, yesterday brought one weaker statistic, as the Commerce Department said sales of new homes fell by 10.3 per cent in October, apparently contradicting a report by the National Association of Realtors showing that sales of existing homes had risen 9.1 per cent in the same month.

No joy for Little Rockologists

Jurek Martin on transition watchers forced to speculate on White House posts

ALREADY President-elect Bill Clinton has kept a promise. Soon after winning the election a month ago, he said he would not announce any appointments to his government before December, and he has not. But December has now dawned and speculation over who gets what is starting to mount.

It remains mostly speculation, because this is proving a phenomenally discreet transition operation, intent on avoiding, at all costs, some of the public tensions that have afflicted earlier interregna.

Clusters of advisers have set up shop in Washington to investigate various aspects of policy, but the decision-making circle on appointments is in Little Rock and is tight – with Mr Clinton himself, his wife Hillary, Vernon Jordan and Warren Christopher, the twin transition directors, forming its core.

All visitors to the Arkansas capital have been carefully noted by a press corps looking for any straw in the wind. Newspapers, magazines and news letters print lists of virtually everybody who has been mentioned anywhere for anything. And there has already been a certain amount of semi-public competition for specific positions.

The Wall Street Journal, for example, this week reported on a bitter subcutaneous battle, especially rife in the semi-conductor industry, over the respective merits of two leading candidates for the job of trade representative – Ms Paula Stern and Mr Alan Wolff.

Both are acknowledged trade experts but Ms Stern, it has been noted with many nudges and winks, has tended more to represent foreign interests and Mr Wolff domestic concerns in their private consulting practices.

In a somewhat different vein, the New Republic magazine began what it called "a series of brief assessments of people we believe Clinton should not appoint to his administration" with a hatchet job on Congressman Lee Hamilton of Indiana, a possible secretary of state.

Mr Hamilton, the magazine said in an article that was the pure grinding of the Washington insider wheel, was afflicted with "innate caution" (he believed Lt Col Oliver North was telling the truth) and "a status quoism not unlike George Bush's".

There is also political game-playing afoot, as in this week's hot rumour that Senator Lloyd Bentsen of Texas, chairman of the senate finance committee, will become treasury secretary. This seems to fly in the face of previous wisdom, which had it that Mr Bentsen and Mr Clinton – both, by Democratic standards, fiscal conservatives – might prefer Mr Bentsen not to leave the committee chairmanship, where the next in line is the less predictable, but always provocative, Senator Daniel Patrick Moynihan of New York.

But the Texas newspapers have been awash with stories of a Bentsen move. Behind some of them may be seen the discreet hand of Mr Henry Cisneros, the former mayor of San Antonio, himself a candidate for the Clinton cabinet (transportation is most often mentioned) but possibly more interested in Mr Bentsen's Senate seat if it is vacated early.

The dilemma for all prospective candidates is the extent to which they can be seen to be pushing for a particular position. As one former member of the Clinton campaign who has done some transition work put it, "not campaigning for the job means you won't get it", and, "like a first at Oxford or Cambridge, you've got to do a bit of work but not be seen to do too much".

A fairly typical public performance this week was that of Mr John Young, former chairman of Hewlett Packard and on many lists as a possible secretary of commerce. He drew a decent crowd to a Washington breakfast but ducked all questions about the future, preferring the safer option of talking only about the need for greater US competitiveness.

Even political figures more accustomed to the limelight than Mr Young have been hiding behind bushels. Senator Bill Bradley of New Jersey, for instance, is now quoted at much shorter odds for the State Department than for the Treasury, in which he was once thought to have interest. There have been reports that he was sounded out by Little Rock before the Thanksgiving holiday last week about the foreign policy position but he has been far too discreet to comment at all, perhaps because he, too, was an Oxford man.

The disposition of Mr Christopher, deputy to Mr Cyrus Vance in President Jimmy Carter's State Department, still seems to be central to Mr Clinton's planning. There remains an unsubstantiated assumption that he will get one of three critical jobs – secretary of state, attorney general or White House chief of staff. Once he is placed, or not, other appointments may follow more easily.

Mr Tim Wirth, the outgoing senator from Colorado who was among those known to have conferred in person with Mr Clinton last week, is another given a serious shot at one of three cabinet positions – energy, interior, or the Environmental Protection Agency. Mr Bruce Babbitt, the engaging former governor of Arizona and occasional intimate of the president-elect, is also frequently mentioned as a candidate for one of these slots.

Washington is likely to see Mr Clinton again next week and he might come with a few envelopes in his pocket. It is, after all, that time of year.


Bentsen: hot rumour


Moynihan: next in line


Clinton: kept his promise

Venezuela calls off national curfew

THE Venezuelan government has lifted the national curfew imposed after Friday's failed coup, and restored the rights to free speech, free transit and public assembly, Joseph Mann writes from Caracas.

Mr Luis Pinerua Ordaz, minister of the interior, said the government hoped to restore the rights to freedom from arbitrary arrest and the inviolability of the home before state and local elections on December 6.

President Carlos Andres Pérez, the target of two coup attempts this year, has in recent days stressed that he does not plan to change his free-market economic policies.

Argentina debt deal ready

Argentina and its commercial creditor banks are to sign a debt restructuring agreement in Buenos Aires on Sunday, the government announced, writes John Barham.

The ceremony will end months of cliffhanging negotiations over the conversion of $23bn (£15bn) in debt into bonds, which will substantially reduce the debt.

Discovery shuttle lifts off

The space shuttle Discovery yesterday blasted off with five astronauts and a secret satellite on the National Aeronautics and Space Administration's last big mission for the US Defence Department, AP reports from Cape Canaveral.

The main objective of the mission was the release of a military satellite.

Ecuador monthly inflation 1%

Ecuador's monthly inflation rate fell to 1 per cent in November, down from 6.3 per cent for October, suggesting that government anti-inflationary measures are beginning to take hold, Raymond Colitt writes from Quito.

NEWS: WORLD TRADE

Growth in world trade falling back

By Frances Williams in Geneva

THE growth of world merchandise trade has slackened in the second half of 1992 after rising by an annual 5 per cent in the first half, according to preliminary estimates by the General Agreement on Tariffs and Trade (Gatt).

Giving the figures yesterday to Gatt's annual meeting in Geneva, Mr Lars Anell, the meeting's chairman, said the "somewhat downbeat assessment" for the past few months reflected weak demand in western Europe and Japan.

Mr Anell, formerly Sweden's ambassador to Gatt and now the country's representative in Brussels, said a successful conclusion to the Uruguay Round would provide a much-needed boost to the world economy.

International trade has been in the doldrums since the boom year of 1988. Last year growth in volume terms, at 3 per cent, was the smallest since 1983 and Gatt predicted last March that growth this year would not exceed 4 per cent.

Interest in regional trading arrangements was high, Mr Anell said, with 16 accords notified to Gatt in 1992 against just one in 1991.

● The EC should stop looking for foreign scapegoats and accept responsibility for the reduction in farm export subsidies which is the key to a much-needed Gatt deal, James Dobbins, US ambassador to the EC, said yesterday, Lionel Barber writes from Brussels.

In a blunt address in Brussels, Mr Dobbins said it was a myth to suggest that the US-EC compromise on farm subsidies imposed greater sacrifices on the Community. He also rejected complaints that Europe was altering its agricultural policies under US pressure, saying that change was driven first by the reform of the Common Agricultural Policy (CAP) agreed by the Twelve last May.

Without naming France, Mr Dobbins said: "European leaders have an obligation to explain these realities to their voters. European leaders have an obligation to accept responsibility for the policies they have set, and the bargains they have struck."

Speaking at a conference on business opinion in the EC organised by United Parcels Service, Mr Dobbins said US cuts in subsidised exports would be comparable with "where not greater" than those of the EC.

The US-EC deal calls for a 21 per cent cut in the volume of subsidised exports. This figure derives from the end of the 1986-90 base period, when US subsidy programmes grew faster than the EC's.

"This means that US subsidies will now have to be cut back more sharply than the Community's," said the US ambassador.

Measured against the volume of subsidised exports offered for sale this autumn until October 1993, the US will have to cut its subsidised exports of wheat by 54 per cent, barley by 78 per cent, rice by 95 per cent, vegetable oils by 84 per cent and poultry meat by 52 per cent, according to Mr Dobbins.

By comparison, based on European Farmers' Union projections of subsidised farm exports for the current year, the EC should have to cut back 39 per cent in wheat, 9 per cent in barley, 49 per cent in rice, and 39 per cent in poultry meat.

Telecoms suppliers in EC warn on reciprocal access

By William Dawkins in Paris

EUROPE's 11 leading telecommunications equipment suppliers have warned the Brussels Commission that they will be at a disadvantage against North American and Japanese *competition when* the single market opens next month, unless the EC acts.

The European Information Technology Round Table, chaired by Alcatel Alsthom of France, has asked Brussels to negotiate fair access to non-European markets before January 1, when an EC directive to create free competition in public procurement for telecommunications equipment comes into force.

"Why should we open European markets to competition from outside Europe without getting anything in return?" said Mr Pierre Suard, chairman of Alcatel Alsthom.

The directive, which also applies to transport, energy and water, obliges public purchasing authorities to buy from the cheapest source, almost irrespective of origin. They may discriminate in favour of European suppliers only if the European tender is less than 3 per cent above the cheapest foreign offer.

Member states had asked the Commission to negotiate the same freedoms for EC suppliers in non-European markets, under the principle of reciprocity. Yet the round table – which includes Siemens and Daimler-Benz of Germany, Philips of the Netherlands, and Olivetti of Italy – complains that Brussels has failed to obtain such a deal. It says the directive should be delayed until Brussels does so, or only apply to foreign suppliers from countries with reciprocity agreements with the EC.

Telecommunication operators in the key non-European markets own or control their principal suppliers, while vertical integration of this kind barely exists in Europe.

"We are one month away from the single European market, and the Commission has done nothing," said Mr François Petit, the Alcatel director who chairs the round table's telecommunications section.

Idea pirates 'dodging rules'

Nancy Dunne on complaints over counterfeiting enforcement

FOUR years after the US Congress passed tough legislation aimed at foreign piracy and counterfeiting, American companies complain that they are still losing billions of dollars because of inadequate protection of intellectual property rights by other governments.

"The improvements have been marginal," says Mr Johannes von Schilcher, executive director of the International Anticounterfeiting Coalition (IACC). "The US trade representative moves in and gets a wonderful agreement on paper, which everyone signs. They promise the world, but whatever they promise, they put into place for about six months and then everyone forgets about it."

The coalition represents more than 100 of the largest US exporters, including American Brands, Time-Warner, IBM, the Motion Picture Association of America, Monsanto and Walt Disney. The companies are urging the US government to provide more manpower to monitor international agreements and fight the increasingly sophisticated pirates of everything from bogus birth control pills and Levi Strauss blue jeans to counterfeit brake linings and machine parts.

Mr von Schilcher says the US has made "significant progress" through the use of the "Special 301" section of the 1988 trade law in getting countries to sign agreements. "But the US needs to hold their feet to the fire" to ensure enforcement of those pacts.

Special 301 directs the US trade representative to "name names" of those countries failing to protect intellectual property rights. After negotiations, sanctions can be imposed, but it has only once come to that.

Last year when India refused to protect pharmaceutical and chemical patents, Mrs Carla Hills, the US trade representative slashed $60m worth of Indian products from the US duty-free preference scheme for poor countries. This, she said, was "meant to be a rifle shot absolutely focused" on the beneficiaries of patent theft.

Mostly countries have succumbed to US pressure once they are named. Indonesia never made it on to the list but cut a deal with Hollywood film makers to avoid the disgrace. The other Asian tigers have fallen into line, one by one.

China – in 1991 named the worst offender for protecting neither product nor process patents, copyrights, trademarks or trade secrets – gave in last January. It promised to improve protection of computer software, sound recordings, pharmaceuticals and agrichemicals, to join the Berne Copyright Convention and the Geneva Phonogram Convention, and to grant copyright protection for 50 years.

While companies have been impressed by these successes, they complain that there has been little follow-up. Mr von Schilcher cites the example of South Korea, which in 1989 was removed from the list of worst offenders after signing an agreement to amend its laws to give broader protection to intellectual property rights and to step up enforcement.

In the first year after the agreement, US Customs seizures of counterfeit merchandise from Korea dropped dramatically, but in 1992, they began to rise, approaching the levels of 1989. "Merchandise seized by Customs is the tip of the iceberg since Customs only examines a small portion of the merchandise entering the US," Mr von Schilcher said.

Eight trade associations represented by the International Intellectual Property Alliance (IIPA) are so frustrated by Taiwan's failure to cope with copyright pirates, that it has vowed to oppose its membership in the General Agreement on Tariffs and Trade.

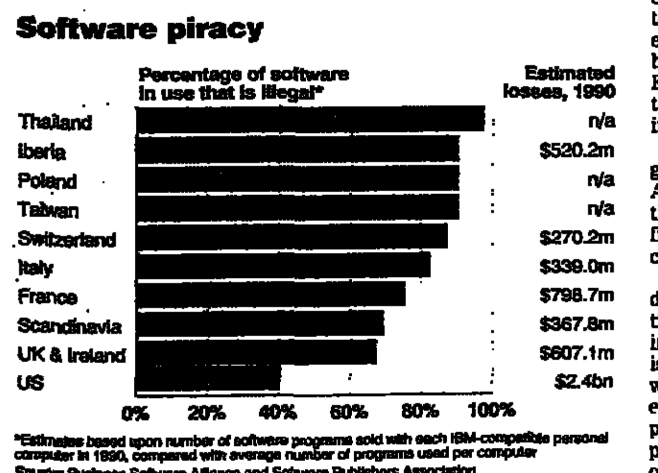
In particular the IIPA complains that Taiwan encouraged the financing and construction of seven compact disc manufacturing plants, which allegedly use their excess capacity to manufacture pirate CDs for export. The pirated products have appeared in the Middle East, Africa and Europe "distorting the legitimate market in these regions".

The IIPA is also calling for government action in Latin America, where pirates are cutting into the profits from US films, music, audio recordings, computer software and books.

A US trade official said President George Bush's administration has been working hard to improve enforcement of promised laws but "all these things work in fits and starts". Governments try to put local pirates out of business but the pirates are well organised and often dangerous. "They fight every step of the way and many have political influence."

Although multinational rules on intellectual property rights may be agreed in the Uruguay Round, the fight against pirates is likely to get tougher, the trade official said. "The more technology changes, the easier it becomes to steal the stuff."

Software piracy



*Estimates based upon number of software programs sold with each IBM-compatible personal computer in 1990, compared with average number of programs used per computer
Source: Business Software Alliance and Software Publishers Association

Illegal software merchants hit

By Louise Kehoe in San Francisco

US PERSONAL computer software companies have launched a world-wide effort to crack down on software pirates operating electronic bulletin board systems which they allege are illegally distributing copies of their software programs.

Police in Berlin recently raided the premises of 13 bulletin board operations after an investigation by the Business Software Alliance, a group representing US software companies.

According to BSA, Berlin police seized about 25 computers containing illegal copies of software programs.

Electronic bulletin boards (BBs) consist of a computer that can be accessed by other personal computers via telephone lines. PC users can dial these services and obtain copies of programs or send messages. For the most part this is a legitimate cottage industry run by computer enthusiasts. Some, however, offer cheap copies of popular software programs.

"Distributors of illegal software are now operating aggressively throughout the world, selling pirated copies of software to unsuspecting consumers," *said Mr Robert Holleyman*, BSA president. Software piracy cost the industry an estimated $10bn to $12bn (£7.8bn) in lost sales last year, according to BSA.

BBs distribution is one of several methods of "cross-border" piracy which have become a primary focus of anti-piracy efforts by the software industry group.

Others are the illegal copying of software within multinational companies and the *establishment of software distributors* formed specifically to move counterfeit products from country to country.

France keeps up oilseeds pressure

By David Buchan in Paris

FRANCE wants the EC to conclude a renegotiated oilseeds accord with the US, leaving other elements of the controversial transatlantic farm deal to be resolved later in negotiations under the General Agreement on Tariffs and Trade (Gatt).

"We should settle the oilseeds dispute first," Mr Jean-Pierre Soisson, France's farm minister, said yesterday.

France could accept the restriction in the US-EC agreement limiting Community cultivation of oilseeds to 5.128m hectares, but the ceiling on the amount of oilseeds which could be grown, on land set aside from food production, for industrial uses like bio-energy, would have to be raised or removed.

The French tactic seems aimed at raising again the option of separating the oilseeds dispute from the wider Gatt farm row by arguing that the issue is not totally part of the Gatt negotiations. Two Gatt panels have demanded the EC change its oilseeds regime.

Speaking to foreign journalists in Paris, Mr Soisson suggested that France might try to rally other EC governments – notably that of Germany, which is a big oilseeds producer – for a direct approach to Washington for a rejigged oilseeds deal. But French Prime Minister Pierre Bérégovoy was said yesterday to favour working through the European Commission according to established EC rules and protocol.

Gatt will be one of the more delicate issues at today's Franco-German summit in Bonn. Mr Soisson acknowledged Germany faced a dilemma between "not wanting to separate itself politically from France, and not wanting to separate itself economically from the US".

An Elysée spokesman suggested that President François Mitterrand would not want to push Chancellor Helmut Kohl too hard on the Gatt issue.

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Union abandons anti-Japan talk in no-strike deal

By David Goodhart in London

THE trade union which once denounced Japanese company councils and no-strike agreements as "alien practices" has signed a single-union, no-strike deal, with the Japanese company Toray Textiles Europe.

Toray Textiles will shortly open its third British plant at a greenfield site in Mansfield, Nottinghamshire, employing about 400 people.

MSF, the 600,000-strong union representing mainly white-collar and professional staff, beat the GMB general union and the Knitwear Workers Union to secure the deal. It is the first it has signed for blue-collar workers.

The agreement includes a classic Japanese-style no-strike deal, denounced in the past by MSF, under which failure to agree on pay or conditions will lead to external conciliation. If unresolved, the dispute leads to "pendulum arbitration" at Acas, the conciliation service. Pendulum arbitration means the proposal of one side must be chosen, but no compromise can be accepted.

Mr Roger Lyons, MSF general secretary, distanced himself yesterday from comments made by his predecessor, Mr Ken Gill, at the 1991 TUC Congress attacking Japanese company councils. "I'm not going to be held accountable for statements made in a personal capacity by my predecessor," he said.

He emphasised "things are moving on" in other areas of union policy, rejecting claims that MSF, along with other unions, was behaving hypocritically over no-strike deals. He stressed that, unlike many other such deals, Toray is allowing the participation of full-time union officials on the company council and union involvement in training.

The EETPU – the electrical section of the AEEU craft union, which was criticised by other unions when it pioneered deals like the Toray one in the early 1980s – took satisfaction from yesterday's announcement.

Mr Paul Gallagher, the electricians' leader was "surprised but delighted that MSF have stopped seeing inward investors as 'aliens' which was their previous policy."

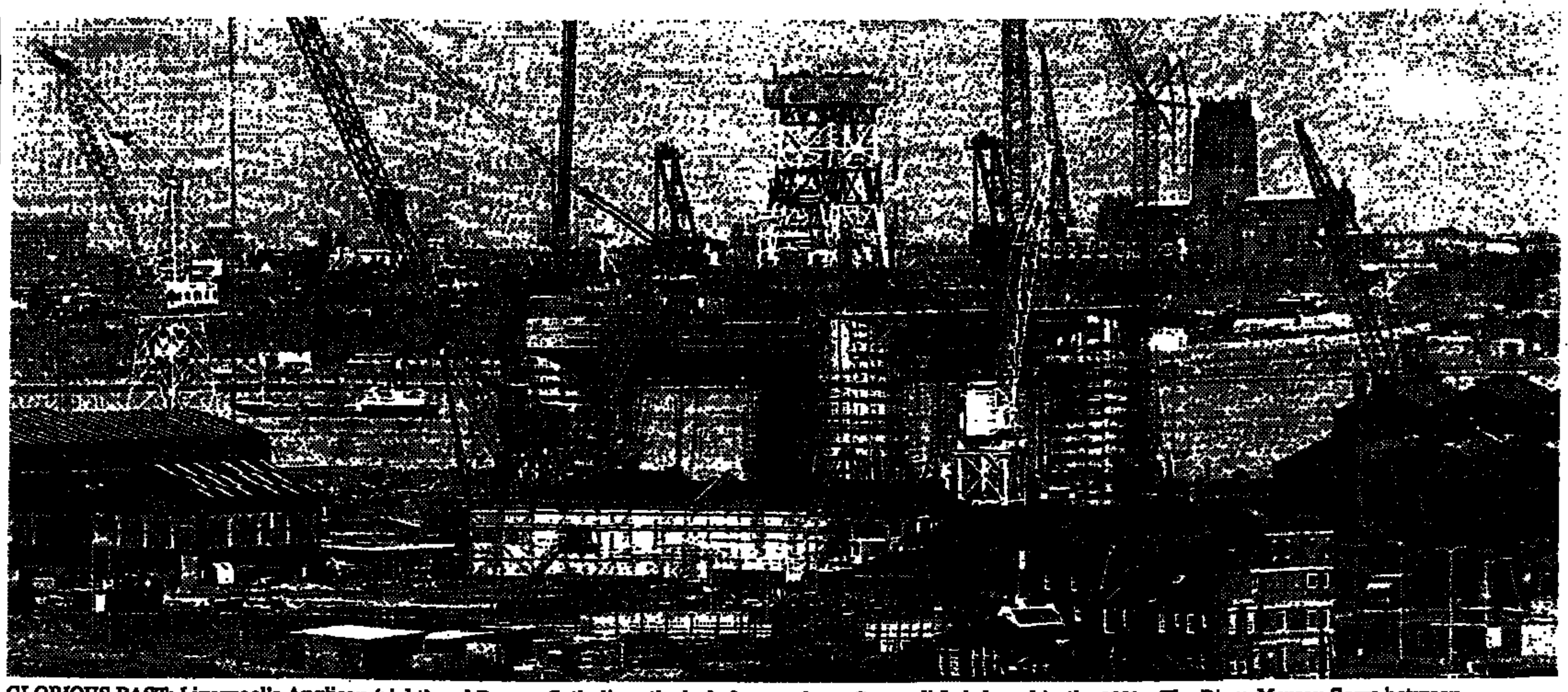
'Legoland' plan for safari park

By Hilary Barnes in Copenhagen and Michael Skapinker in London

LEGO, the Danish toys group, plans to open a DKr600m ($97m) family amusement attraction on the site of the Windsor Safari Park, which closed last October.

The 24.7 acre London park, scheduled to open in 1996, will be modelled on Lego's highly successful Legoland amusement park at the group headquarters in Jutland. It will be the first Lego amusement park outside Denmark, but others are planned in Europe and America. Themes International, the private leisure concern which owned Windsor Safari Park, went into receivership last January. Several leisure groups, including First Leisure, the discotheque, tenpin bowling and tourist attractions group, are thought to have looked at the park.

Lego expects the Windsor park to attract about 1.2m visitors a year. The Danish Legoland park is the most-visited tourist attraction in Denmark outside Copenhagen. It is built around models of villages and well-known monuments made from Lego bricks, but also includes a funfair and gardens.



GLORIOUS PAST: Liverpool's Anglican (right) and Roman Catholic cathedrals frame a busy Cammell Laird yard in the 1980s. The River Mersey flows between.

Cammell Laird shipyard loses fight for survival

By Ian Hamilton Fazey

VSEL, the former Vickers warship builder, yesterday gave up its attempts to sell the Cammell Laird shipyard in Birkenhead by announcing it would close in July next year, with the loss of 900 jobs.

Cammell Laird was bought by VSEL for £1 in 1986 after the management buy-out of the Vickers yard in Barrow-in-Furness from the state-owned British Shipbuilders. Since then Barrow has largely concentrated on building Trident nuclear submarines and Birkenhead on diesel-electric ones.

However, the end of the cold war has destroyed both yards' markets. Work on the last Upholder class submarine being built at the Merseyside yard will be completed next June. Barrow has enough Trident work for another three years, but has shed about 6,000 jobs since 1990 and expects to lose at least 2,000 more as the Trident programme runs down.

Cammell Laird, which has been an essential part of Merseyside's economic structure for more than 100 years and had one of the area's few large concentrations of skilled labour, employed 2,000 people two years ago, but has been laying off workers regularly since then.

Its best hope of survival lay in Liverpool Bay, where natural gas has been discovered in exploitable quantities by Hamilton Oil. Amec, the construction and civil engineering group, looked certain to buy Cammell Laird to service a new offshore industry only 20 miles off the Merseyside and North Wales coasts.

However, protests by environmental groups forced Mr David Hunt, the Welsh secretary, last March to refer planning application for a new gas terminal to a public inquiry.

Britain in brief

Sharp rise in complaints about banks

A FURTHER sharp rise in the number of complaints against banks by personal customers was reported yesterday by Mr Laurence Shurman, the banking ombudsman.

Complaints in the year to September rose by 60 per cent to 10,109.

Mr Shurman said the increase – the fifth consecutive yearly rise from the 1,682 made in the first year of the ombudsman scheme – reflected customer difficulties in the recession, and greater consumer consciousness.

The number of complaints accepted by Mr Shurman for full investigation under his terms of reference rose 28 per cent to 956. Of the 772 investigations he completed, some 36 per cent resulted in bank compensation.

The ombudsman scheme, in which 36 banks including all high street clearing banks participate, is limited to personal customers. The ombudsman deals only with claims of up to £100,000, and most awards were between £100 and £10,000.

Mr Gordon Brown, the shadow chancellor, said Mr Lamont should order a wide-ranging public inquiry into banks to examine "excessive" service charges and interest rates and the "inadequate information" available to customers.

The Consumers' Association said the rise in the number of complaints was "almost certainly the tip of the iceberg". Mr John Beishon, association director, said consumers were "fed up to the back teeth with the banks' incompetence".

Warning over labour costs

British companies must continue to reduce their unit labour costs if the competitive advantage of sterling's devaluation is not to be frittered away, Mr Howard Davies, Director General of the Confederation of British Industry, the employers' organisation, warned yesterday.

Strikes at 100 year low in UK

Despite recording the lowest domestic strike figures for nearly a century in 1991 Britain was still midway down the OECD league table of strikes, according to an analysis in the latest issue of the Employment Gazette.

In the 10 years 1982 to 1991 there was a general decline in all countries in the number of working days lost from strikes but the countries showing a consistently high strike rate were Greece, Spain and Italy, and those with consistently few days lost from strike action were Switzerland, Austria, Japan and the Netherlands.

In 1987-1991 the number of days lost through strike action in the UK was 70 per cent lower than in the previous five-year period, which was substantially better that the OECD average of a 30 per cent reduction.

The most strike prone industries in OECD countries are mining, manufacturing, construction, transport and communication.

Tourist plan for London

A £2.2m publicity campaign to attract high-spending visitors to London was launched yesterday by 40 private and public-sector organisations, with the backing of film and sports personalities, including Elizabeth Taylor, Sophia Loren, Roger Moore and Steffi Graf.

The campaign, aimed at visitors from the US and the UK, is supported by British Airways, American Express, the Forte hotel group, Harrods, Marks and Spencer, the British Tourist Authority and several London museums and other attractions.

Based on the slogan "It's not only Londoners who love London", the campaign will rely on newspaper and magazine advertising, direct mail and Prodigy, a shopping service linking 1.8m personal computer users in the US.

Rhône-Poulenc investment

Rhône-Poulenc, France's largest chemical company, is to invest £14m in new manufacturing plant at Norwich. The investment is to create facilities for a new fungicide called bromuconazole. An existing plant to manufacture herbicides is also being updated under the scheme.

UK reserves rise by $86m

The UK's official gold and foreign currencies reserves rose an underlying $86m last month, surprising City of London economists who had forecast another fall.

In September and October the reserves fell quite sharply, reflecting heavy spending by the Bank of England on September 16, in a vain attempt to prop up the pound.

However, the official reserve figures are not necessarily a good guide to official intervention on the foreign exchanges.

The Bank of England is able to shroud intervention levels by borrowing on the foreign exchange forward market, loans which can be rolled over indefinitely. It also borrowed funds from other European central banks before Black Wednesday, which do not have to be paid back until the middle of December.

"The rise of $86m tells us nothing about what has been going on in terms of intervention," said Mr John Shepperd, economist at SG Warburgs Securities. "To look to the official reserves for guidance is a lost cause."

Home of BBC sold for flats

The Lime Grove studios in Shepherd's Bush, which were occupied by the BBC for nearly 50 years, have been sold for redevelopment into flats and houses. Lime Grove was the home of many of the BBC's pioneering programmes particularly in childrens' broadcasting.

NEWS: UK

BT, Mercury to cut UK phone bills in 1993

By Hugo Dixon and Roland Rudd

MANY PHONE BILLS will be reduced from January after British Telecommunications and Mercury Communications yesterday announced a series of price changes.

Further cuts in phone bills are in prospect later next year as a result of vigorous competition unleashed between the two telecommunication companies.

In a break with its traditional pricing policy, BT said it might reduce its prices by more than it was required by Oftel, the industry regulator, in order to persuade customers to make more calls.

The change in BT's pricing policy has been prompted by a combination of increased competition, tighter regulation and the arrival of new executives who have experience of market-driven industries.

Prominent among these is Mr Michael Hepher, group managing director, who was chairman of Lloyds Abbey Life until last year.

BT yesterday announced a freeze on call charges, bigger discounts on its standard rates for customers who make many calls and improved terms on its optional pricing packages. Calls to the US and Canada will be cut by between 3 and 10 per cent. But BT said that line rental charges would be increased by 5.9 per cent.

As a result of the changes, businesses will see their phone bills fall by between 0.6 per cent and 4.1 per cent, depending on their size, BT said.

But the average residential customer's bill will rise by 2.4 per cent.

Mercury pre-empted BT's price changes by announcing improvements to its own optional pricing packages, which it said would give customers extra savings of 5 per cent. Optional pricing packages are a new feature in the UK telecommunications market which allow customers to pay cheaper call rates in exchange for higher standing charges.

Mr Hepher also said that BT had more price cuts "up our sleeve" which it did not want to reveal for competitive reasons.

According to preliminary calculations by Oftel, BT is required to cut its prices on average by a further 2 per cent before the end of next July to comply with regulations.

This would cut phone bills by another £150m.

Leader, Page 12

Gilts auction proves a serious disappointment

By Sara Webb

THE FIRST auction of UK government bonds since sterling's ignominious departure from the European exchange rate mechanism in September proved a serious disappointment yesterday as foreign investors stayed away from the gilt market, leaving domestic buyers to pick up the stock.

The Bank of England, which had put £2.5bn of gilts on offer, received bids totalling only £3.15bn, seen by the market as a very low cover ratio.

"The auction has confirmed the general view that UK interest rates are unlikely to come down substantially in the short term", said Mr John Kendall, economist at Baring Sterling Bonds.

The gilt issue on offer, 8 per cent Treasury stock due 2003, had been expected to appeal to overseas investors. The issue is expected to take over as the new 10-year benchmark, which is used as a reference for the rest of the market because of its size and liquidity.

Gilts, Page 29

Major success rests on fear of summit failure

Philip Stephens examines what is at stake at next week's Edinburgh summit and discovers that the success of the UK prime minister's EC presidency depends on some complicated trade-offs: a crucial factor may be the market reaction to failure

BRITISH prime minister John Major cannot yet be sure whether next week's Edinburgh summit will turn out to be a triumph or a disaster. Those in Whitehall, at the heart of the government's administration, prepared to quote odds on a successful outcome suggest that they stand at present at slightly worse than 50-50.

That may be deliberately over-cautious. It is in Britain's interests to play down expectations. Its partners meanwhile are not ready to reveal their full hands. The prime minister's tour of European capitals is judged by his officials to have been a "moderate success".

But as at Maastricht a year ago, the most important bargains can be struck only by heads of government.

Mr Major's principal hope for success rests on an assumption that has nothing to do with the detailed agenda: that his European colleagues will conclude they cannot afford to fail. Ratification of Maastricht has acted as a lightning conductor for popular disenchantment with the Community. With the economic outlook ever more depressing, a row at Edinburgh would reinforce the perception of the treaty as an indulgent irrelevance.

There is a practical dimension to the warning. It is being applied by the British presidency as a none-too-subtle form of blackmail. The financial markets, the argument runs, remain nervous and volatile – witness the latest bout of speculation against the French franc. The speculators are unconvinced still that central banks can hold the line within the European exchange rate mechanism. What chance would the ERM have if European leaders were seen to be incapable of agreement on the Community's future? It is a powerful argument – one which Britain believes has particular resonance in European capital cities such as Paris, Madrid, Lisbon and Dublin.

It is also a two-edged sword. Mr Major more than any other leader in Edinburgh needs a political success. If Europe is judged to have failed then Britain will bear much of the opprobrium.

The list of issues that must be resolved is formidable. As of yesterday the presidency could cite a dozen items which one government or another insists should be on the agenda. Alongside the core internal issues – future financing, Denmark, enlargement, the single market, subsidiarity and the economy – are a range of smaller but potentially obstructive items.

Germany, for example, wants more seats in the European parliament. It is also determined that the heads of government look seriously at nuclear safety in the former Communist bloc. Macedonia is demanding recognition by the Community. Greece is threatening a walk-out if it is given. All the summit leaders recognise they must be seen to be responding to the unfolding human tragedy in Bosnia.

A crowded and complex agenda has obvious drawbacks. Deadlock on one issue could hold up agreement on everything else. Mr Felipe Gonzalez, for example, has indicated that the price of a deal with Denmark is a future financing accord with lots of what British officials refer to disparagingly as Spaingeld. The eventual outcome may well depend on how obstinate Mr Gonzalez is prepared to be.

Those two issues – the budget and a package of exemptions to allow a second Maastricht referendum in Denmark – are judged by the presidency to be the key to success. Without an agreement on both, Edinburgh will be judged a failure.

John Major: seeking the heart of Europe

But the links offer advantages as well as drawbacks. They provide the scope for trade-offs: compromise on one issue can buy a government concessions on another. It is a form of negotiation that Mr Major, a master of detail, excels at.

There are more hopeful signs than the public rhetoric suggests. France has indicated privately that if Mr Major does not indulge in self-congratulation it will not provoke a row at Edinburgh on the EC-US farm trade deal. Chancellor Helmut Kohl has told the prime minister that he will do his best to ensure the summit is a success. British officials are confident that disagreement over the scale of any economic recovery package can be finessed by skilful drafting.

The southern states have rejected out of hand as miserly the budget compromise proffered by Mr Major. Germany and the Netherlands insist it is too generous. The presidency sees scope for technical adjustments in the resources formula which might yet bring the two sides closer together.

British officials hope also their compromise position on Denmark will meet Copenhagen's concerns while respecting the determination of others not to re-open the treaty. It suggests a range of instruments to give Denmark the opt-outs it seeks.

It could all yet unravel. European leaders have been known before to prefer stubbornness to self-interest. Mr Major, however, will devote every ounce of his energy to ensuring that they do not make that mistake again.

He has as much to lose personally as does the Community collectively.

New plan to break Danish deadlock

By Philip Stephens in London, Hilary Barnes in Copenhagen

MR JOHN MAJOR last night tabled new proposals designed to break the deadlock over Danish ratification of the Maastricht treaty at next week's European Community summit.

But the outlook for the Edinburgh meeting was simultaneously clouded by an admission from Downing Street that the prime minister has been unable so far to agree a time for pre-summit talks with President François Mitterrand.

British officials sought to play down the significance of the apparent snub by Paris, insisting that official contacts had established a large measure of agreement between the two sides on the main summit issues.

As Mr Major returned from a three-day tour of European capitals, Downing Street said its latest proposals were designed to meet Denmark's demands for a dilution of its treaty commitments on defence, citizenship, interior and justice issues and monetary union.

But the presidency compromise – framed in terms of a legal declaration – would respect also the insistence of other European governments that there should be no re-opening of the treaty.

Speaking on Mr Major's return from talks with the Danish prime minister, Mr Poul Schluter, in Copenhagen, British officials said that the British presidency was hopeful rather than optimistic of an overall deal at the summit.

They warned that the north-south division within the Community over future financing remained as wide as ever, with Spain in particular threatening to block progress on other issues if its demands for more "cohesion" funds were blocked.

Mr Major will resume his tour of capitals at the weekend. Relations between the the prime minister and President Mitterrand have been frosty since last month when Mr Mitterrand criticised Britain's handling of its EC presidency.

Mortgages linked to age and family size

By John Gapper, Banking Correspondent

BRISTOL & WEST is to become the first building society (home loans and savings institution) to price new mortgages according to the borrower's age and family status. The move is likely to lead to higher charges for young, unmarried couples without children.

From the middle of next year, the society is planning to assess the credit risk of new borrowers using factors such as age, marital status and number of children.

The move could lead to a gap of up to 4 percentage points in the interest rates the society charges to different borrowers.

Bristol & West, the 10th largest building society by asset size, said that both unmarried couples and young adults living together as friends had proved to be worse credit risks in terms of mortgage arrears and repossessions.

"It is an economic policy, although it sounds moralistic," Mr Tony FitzSimons, chief executive, said yesterday. "You have to consider people's lifestyles because regretably those who are not bonded by marriage have a higher propensity to break up, and not pay the mortgage".

Mr FitzSimons said the society had found that unmarried couples were 50 per cent more likely to fall into arrears than married. Childless couples were more likely to default because their bills increased when they had children.

The Building Societies Association said yesterday that societies were gradually varying charges according to types and sizes of loans. However, none had yet started to charge differently according to customer profiles.

Bristol & West is still working on the policy, based on research among defaulting among borrowers who took mortgages in the 1980s. It notes that young borrowers are possibly less embarrassed about repossession.

TECHNOLOGY

Richard Tomkins explains how a controversial scheme to charge drivers would ease traffic congestion

Haggling over road prices

Time is running out for road users. With congestion becoming a worldwide problem, drivers may have to get used to the idea of paying for their journeys.

This is certainly true in Britain, where new solutions are being looked at more closely than ever. While recession may have taken some of the heat out of the traffic crisis, it will not be long before vehicle ownership and use resume their rapid rise. In barely a decade, according to UK government forecasts, traffic levels could be 50 per cent worse than they are already.

The question is: just how is this traffic growth to be accommodated? Many large towns and cities already experience intolerable levels of congestion, but few have room for more roads. Many trunk roads and motorways are also packed, but even where environmental considerations allow for widening or new construction, the government cannot afford the huge sums required.

In both cases, it seems, something will have to give: and in both cases, it looks like being the road user. Indeed, if there were ever any doubts on the issue, they were dispelled by two separate government announcements on the sensitive issue of road charges.

One came from Norman Lamont, the Chancellor, in his Autumn Statement. If the country was to get the transport infrastructure it needed, the private sector would have to help provide it. The underlying message was that private companies would be encouraged to build toll roads.

What may prove harder to swallow is the government's other announcement. At a London traffic congestion conference last month, John MacGregor, the UK Transport Secretary, fired what appeared to be the first shot in a campaign to soften up attitudes in readiness for the introduction of electronic road pricing in urban areas later this decade.

The big difference between this kind of road pricing and motorway tolls is its motives. While the purpose of motorway tolls is to increase the supply of road space by raising money for roadbuilding, the purpose of road pricing is to reduce demand for road space by pricing people off the roads. Understandably, the latter is likely to prove an extremely sensitive political issue.

For that reason, the technology of urban road pricing will be crucial. Any system will have to win public acceptability to stand a chance of winning political approval. That means it will have to be seen as fair, easy to use, difficult to outwit, and respectful of civil liberties.

Experience abroad is of little help. The only fully-fledged urban system in the world today is in Singapore, where motorists have to buy a daily or weekly permit to drive into the city centre in peak periods. Permits are checked visually by police at the city's 29 entry points.

In theory, that system could be replaced by an electronic one using existing tollgate technology. On the Dartford Crossing, east of London, for example, vehicle owners can open an account with the operating company and have it debited electronically each time they use the bridge. A matchbox-size device in their windscreen is read by a roadside beacon and opens the tollgate automatically if the owner's account is in credit.

But borders around cities, electronic or otherwise, suffer several disadvantages. One is that they create undesirable cordon effects – for example, encouraging people to dump their cars at the border or divert around it on unsuitable roads. Worse, they are simply unfair, for they impose the same charge on someone momentarily crossing the border as on someone spending the whole day driving around the most congested areas of the city centre.

A better system was that tested in Hong Kong in the early 1980s. Cars were fitted with electronic number plates which were read by electronic loops in the road surface, and motorists were presented with bills according to their use of the roads. The experiment failed, however, because of people's concern that the technology could be used to trace their movements.

Two systems under development in Britain today have sought to overcome this objection by avoiding the need to record where vehicles have been. One, congestion metering, is being developed for Cambridgeshire County Council by the universities of Newcastle and Northumbria. The other, called Timezone, is being developed by GEC-Marconi, the aerospace and electronics arm of Britain's General Electric Company.

Congestion metering, devised as a means of countering acute congestion in Cambridge, is aimed at discouraging people from using scarce road space at the busiest times by charging drivers.

Vehicles would be fitted with meters that monitored their progress through traffic. Any vehicle stopping four times or more within any half-kilometre stretch, or taking more than three minutes to cover that distance, would start clocking up units.

Drivers would pay for the units with pre-paid smartcards which would be inserted into the meter and debited as the journey progressed. If the meter ran out, a linked device would cut off the fuel supply – though an overdraft of, say, 50 units would be allowed to give people time to buy new cards.

Normally dormant, the meters would come into operation when activated by microwave signals from roadside beacons at entry points to the city. Similar signals would switch the meters off at exit points.

People without meters would have to buy day passes at slightly more than the average cost of a metered city centre journey. These would also respond to roadside beacons. Any vehicle failing to respond would have its registration plate automatically photographed by roadside cameras so drivers could be traced and penalised.

Timezone, too, would require vehicles to be fitted with in-car meters charged up with smartcards and brought into operation by radio waves. But in this case, transmitters would be installed not just at the entry to the city, but throughout the charging zone, with the meter responding to the nearest transmitter.

A city like London would probably have several zones charging different rates according to the degree of congestion. Charges could also vary according to the time of day.

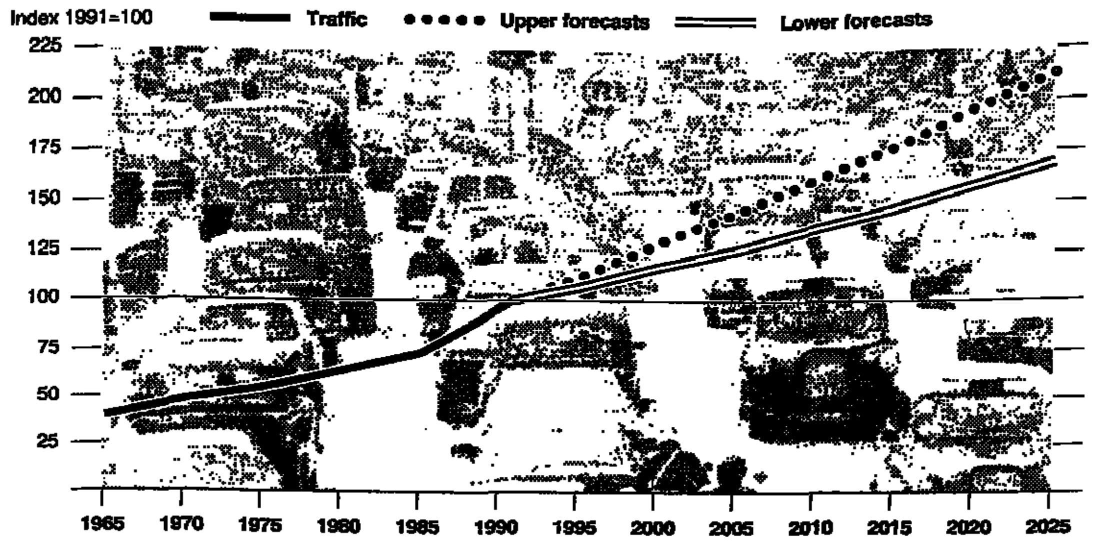
If a vehicle ran out of credits, the roadside transmitters would sense this and automatically report the vehicle's registration number to the authorities. But GEC-Marconi emphasises that registration numbers could not be detected as long as meters remained charged.

People entering the charging zones without Timezone devices would have their registration plates photographed with a view to penalisation. But visitors buying temporary passes would have their registration numbers passed on to the computer which would then ignore the photographic record.

What the government thinks of these competing systems will become clearer when the Department of Transport publishes its report on the technological options for road pricing early in 1993.

That will be just an interim report; the results of the government's full investigation into road pricing are not due until 1994. Even so, the writing seems to be on the wall for free motoring.

Forecasts for all UK motor vehicle traffic



Source: Department of Transport

BMW's C1 prototype: has the same protection in a head-on impact as a small car

BMW's city hybrid

BMW has just unveiled a potential and partial solution to traffic congestion, calling it "a blend of the obvious and a little original thought".

The German car and motorcycle maker is putting forward its C1 prototype as a possible way of taking advantage of the road space and journey time-saving merits of the motorcycle, without the rider being excessively exposed to the usual safety hazards.

BMW claims that the C1, which has an aluminium space frame with built-in front and rear crumple zones, has the same protection in a head-on collision as a small car. It is fitted with a car-type seat, safety belts and roll-over hoop.

Despite suggesting that a helmet could be regarded as superfluous, even Munich-based BMW acknowledges that the C1 is much like any other motorcycle in the event of a side impact.

In practical terms, the wind protection and overhead structure, plus the seating arrangement and 50 litres of luggage capacity, are claimed to eliminate vulnerability to most weather conditions.

BMW acknowledges there is "not much chance" of the C1 going into commercial production, but this is not wholly ruled out: BMW's Z1 plastic-bodied sports car began life as a similar off-beat concept but was eventually put into limited production.

John Griffiths

Streets full of chaos

More in-car information may cut stress by enabling drivers to avoid crowded routes and car parks, but it could also boost chaos on the roads.

Worried that motorists could be swamped by data on anything from traffic snarls to local places of interest, the UK's Department of Transport has commissioned a code of practice on car telephones, in-vehicle computers and sophisticated route guidance systems.

With so much data, drivers could face a battery of dials and displays similar to a small aircraft cockpit. But unlike a pilot, they will have only a split second to scan the screens and take in the data.

The DoT agrees that additional real-time information will benefit motorists on increasingly busy roads, but it does not want them crashing into each other as they follow detailed electronic maps.

***Jane Robertson*, senior project officer at ICE Ergonomics, Loughborough University, which is doing the DoT research, says the code, *available in draft form early in the* New Year, will look particularly at the new hardware likely to distract a driver from more than the briefest glance. The team will assess such factors as the size of display screens, the number of words in a display, the duration of messages and the presentation of graphics.**

It will also look at the positioning of the hardware in terms of field of vision, as well as whether drivers need to stretch from their seat to reach the controls or see the displays. Additionally, Robertson says the type of materials and the use of different types of controls also need be addressed.

Without proper guidelines, she says manufacturers could produce hardware with rough edges or inappropriate materials, resulting in drivers receiving severe body damage if an accident occurs.

Peter Williams of the DoT's driver information unit says the code will be voluntary but expects all manufacturers will be keen to follow it for their own marketing.

He claims the DoT is the first national transport department in Europe to conduct such research, although the the idea has been welcomed by other transport offices.

Alan Jabez

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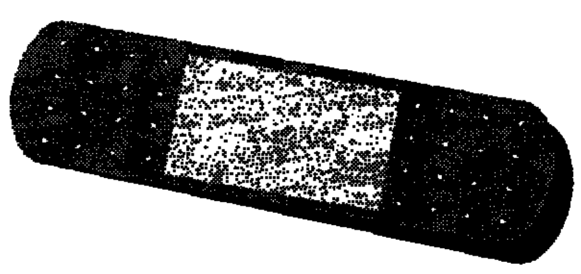

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MANAGEMENT: MARKETING AND ADVERTISING

Gary Mead looks at two motor manufacturers using a similar approach to sell very different types of car

High rollers and basement bargains

What can you buy for £87,549.25? When it comes to motor cars, that will pick up the cheapest Bentley from Rolls-Royce, or just about 13 bottom of the range models from Proton, the Malaysian manufacturer.

From the highly expensive to the unashamedly bargain-priced, both manufacturers face a tricky marketing problem. How do they identify, target and ultimately persuade their relatively small markets – less than 1 per cent of the UK market in each case – to buy their vehicles during some of the most adverse trading conditions for the motor industry of recent years?

The answer is that both Proton and Rolls-Royce have adopted an advertising approach which, while different in style, tries to reassure rather than cajole potential buyers, offering them security in the purchasing decision rather than pushing hard-sell techniques.

The two manufacturers are very different. Proton, which only started marketing its cars in the UK in 1989, is a Japanese-Malaysian hybrid aiming itself solidly at the purchaser who wants a family-sized car at a small car price.

Since producing its first car in 1904, Rolls-Royce has developed an image as quintessentially the last word in expensive and exclusive British craftsmanship, with more than 60 per cent of all the cars it has ever made still roadworthy.

When it comes to marketing, Rolls-Royce has long maintained a brand image of exclusiveness, but latterly that had taken on a feel of aloofness. The company is sensitive to criticism that its product is perhaps out of tune with austere times and that its recent image has become tainted with somewhat vulgar "new" rather than quality "old" money.

But the impact of collapsed sales in 1991 – down to 1,722 units from 3,333 in 1990 – meant that the company needed to rethink both production and marketing strategies.

It has brought costs into line with sales by shedding 35 per cent of its workforce over the last two years. Michael Donovan, commercial managing director, says its break-even point is now "way south of 1,500 units a year". Donovan argues that as far as profitability goes, the company has turned the corner.

But image is still a vital asset requiring careful nurture. In July Rolls-Royce hired a new advertising agency, Edwards Martin Thornton, to brush up its image through a press advertising campaign between August-November. Bob Edwards, managing director of Edwards Martin Thornton, says: "There was a perception that their technical prowess was lacking. That had little to do with Rolls-Royce, rather it was competing manufacturers who began stressing technology, whereas Rolls-Royce had never actually made a case for technology."

Donovan says that almost 80 per cent of Rolls-Royce and Bentley owners say they are going to buy another. But despite that loyalty, Rolls-Royce had become vulnerable to a combination of developing technology, consumer mood change and some clever advertising.

Edwards says that competitors, particularly in the US, attacked Rolls-Royce at its weak spots: price and image. "The price gap was perceived to be widening. That was true to some extent but exaggerated," he says.

"Cars like Lexus (from Toyota) were coming on to the market with an on-the-road price in the US of about $40,000 (£26,300), with features which were arguably comparable with Rolls-Royce. And the emotional side of the Lexus campaign – the advertising headline in the US was 'Flaunt your intelligence, not your wealth' – was perfectly capturing a new mood.

"Rolls-Royce does not sit comfortably in the new recessionary atmosphere, particularly at the corporate level when you have to report losses to shareholders."

Edwards, rather rarely for an advertising executive, holds a fairly commonsense view of the limits to advertising. "We said (to Rolls-Royce): 'An advertising campaign can't change those sorts of values, but what you can do is at least say something and have a point of view. If you remain silent, then you are effectively saying all that is true. This is not a time to be irresolute.' We told them not to apologise for what they are trying to do."

Next week Rolls-Royce will meet Edwards to assess the success of the press campaign, which has cost around £350,000. Even if Rolls-Royce decides to pause from advertising, other means of marketing will continue.

Donovan declines to discuss what his marketing budget is but points out that advertising is not more than 10 per cent of total marketing spending.

"We use sporting events sponsorship and personalised advertising," he says. "We jointly run sponsored events at the Hong Kong jockey club, and sponsor yachting and polo events in US and Japan. In September in the US we ran an event at the normally closed Forbes estate, because the Forbes family are owners of our products, at which we shared with them our customer base.

"It was a weekend event which gave people an opportunity to experience a piece of North American success that they, even though they are wealthy and successful themselves, may aspire to."

Far from the Forbes estate end of personalised marketing lies Proton Cars UK, the local agent for the Mitsubishi-engineered, Malaysian-styled range of Protons. In the UK Proton has adopted a classic approach to press advertising – lots of detailed copy which tries to answer every conceivable question a customer might pose – in complete contrast to the cool confidence of the Rolls-Royce campaign.

Proton's UK sales were 14,000 in 1991 and will reach about 15,000 this year. David Brown, founder, chairman and chief executive of Proton Cars UK, expects annual sales of 20,000 by 1995.

While there are no plans to sell the cars in North America, Brown will start marketing (through a separate company) the Proton range in continental Europe in 1994, with estimated sales of 25,000 in the first full year.

In the UK Proton still benefits from full exemption from import duties, an advantage which runs until the end of 1993. At its plant outside Kuala Lumpur Proton aims to be producing 150,000 units by 1995; the company has acknowledged that its export drive is vital to its continued success, one reason behind Proton UK's estimated £8m advertising spending in the year to June 1992.

Although at almost opposite ends of the price range, there are common elements in the marketing strategies of both Rolls-Royce and Proton.

Proton's marketing makes great play of offering a package of value-for-money extras such as zero interest on financing, two years' free insurance cover and a six-year mechanical warranty.

Brown says that in addition, "a very aggressive dealer network, with dual franchising arrangements with other dealers such as Ford, Volvo, Rover and Saab giving the customer personal service and back-up" aims at reassuring customers.

For both Proton and Rolls-Royce, future successful marketing thus appears to lie not so much in revolutionary new advertising but in achieving harmony between costs and sales, as well as ensuring that their respective messages are correctly targeted.

For Donovan, "it's not an elephant gun, it's a night-sight sniper approach to identifying prospective owners and putting to them our proposition, bringing them together to a point of marriage rather than a point of sale."

Though Brown eschews that romantic metaphor, he also views marketing techniques as being fundamentally about reassurance rather than persuasion, showing "a well-built, quality vehicle at a great price. A car which is not pretending to be state-of-the-art, up-to-date, not leading-edge technology but aimed at the family man."

"Both Proton and Rolls-Royce have adopted an advertising approach which tries to reassure rather than cajole potential buyers, offering them security in the purchasing decision rather than pushing hard-sell techniques."

Lobbyists fight smoke with fire

By Victoria Griffith

The latest anti-smoking campaigns in the US are setting a new standard for public health messages by using the imaginative treatments normally reserved for food, drink and perfume.

"We finally decided to attack the tobacco industry, not by throwing boring facts at the public, but by attacking them on their own battlefield – image," said Paul Keye, chairman of Livingston and Keye, the advertising firm that put together a particularly successful campaign in California.

One problem with public health campaigns in the US is that they have lacked the funds to hire top advertising talent. As a result, public health messages were often seen as dull, "preachy" slots which viewers soon forgot.

New laws in Minnesota and California, however, have added hefty taxes – around 25 cents a pack – to cigarettes, to fund an anti-smoking campaign. Massachusetts may soon follow suit.

The California effort began with a $199m (£131m) anti-smoking budget in 1989 and 1990, $28m of which was spent on a media campaign. That may not be much compared with the $300m the tobacco industry spent on marketing in the state over the same period, but it allowed the anti-tobacco lobby to tap top advertising firms for the first time.

Keye, who was chosen to head the campaign, admits there was a temptation to stick to the old formula of dishing out the facts. "We tested one commercial in which we strung together images of famous movie stars smoking – like Humphrey Bogart and Joan Crawford. Then, at the end of the commercial we told the viewers: 'These movie stars all died of smoking'."

It did not work. "When we tested the ad, all the viewers, including the non-smokers, seemed to walk out with the overwhelming urge for a cigarette. That's when we realised that the image factor completely outweighed the facts we were putting out."

A new strategy was obviously needed. "We decided that if image is what matters, our main goal would be de-glamorisation," said Keye.

Central to the new campaign was an all-out attack on the tobacco industry to create a villain in the anti-smoking struggle. "One problem in reaching young people through health service messages is that they tend to rebel against being told what to do," said Jacquolyn Duerr, chief of the media unit at the California Department of Health's tobacco control programme. "The new message was: 'These terrible, greedy people in the tobacco industry are trying to get you to buy cigarettes and make a profit at your expense. Are you going to let them do it?'"

The result was a series of messages, one of which featured tobacco industry executives laughing in a smoke-filled room about how they were duping the public. Other commercials concentrated on the harm of second-hand smoke; one featured rap music and another an off-putting image of a woman smoking in reverse – with all the smoke being pulled into her mouth.

The new approach yielded impressive results. Viewers' awareness of the campaign reached 87 per cent at its peak in some population segments.

In two years smoking in California was reduced from 26 per cent of the adult population to just 21 per cent.

Those involved in the campaign believe its success will encourage other public health lobbies to adopt the same formula.

PEOPLE

General Electric woos Scholey

Sir David Scholey, chairman of S G Warburg, has underlined the close ties between one of Britain's biggest industrial companies and its premier merchant bank, by accepting a non-executive directorship of The General Electric Company.

Sir David, 57, is one of two new faces in the GEC boardroom. Sir Christopher Harding, 53, chairman of BET and a long-time director of Hanson, has also joined the board. Meanwhile, Dr Tony O'Reilly, 56, the Irish-born entrepreneur who heads the H J Heinz Company, has resigned after two years as a GEC director.

The appointment of two powerful non-executive directors to the GEC board – Sir David is a director of BT and Sir Christopher is on the boards of English China Clays, Slough Estates and Newarthill – is likely to be welcomed by the City. Although Lord Weinstock, the 68-year-old managing director who has dominated GEC since the early 1960's, has given no indication when he will step down, there was some concern about his successor.

Non-executive directors were already in a majority on the GEC board, and the two new figures will lay to rest any doubts that the rest of the GEC board is strong enough to stand up to Lord Weinstock on the succession issue.

The links between Warburg and GEC go back a long way. Sir Ronald Grierson, who was involved in the company's early development, was a Warburg director for many years and only stepped down as GEC's vice chairman just over a year ago. Lord Weinstock's son, Simon, worked at Warburg before joining GEC in 1983 and Warburg is a financial adviser to GEC.

■ Lawrence Urquhart, 57, chief executive of Burmah Castrol, and Peter Middleton, 51, chief executive of Lloyd's of London, have been appointed non-executive directors of BAA. Meanwhile, Denis Cassidy, retires as a non-executive director.

Reshuffle at BTR Nylex

Geoffrey Vincent, finance director of BTR's important Australian operation, has resigned little more than a year after he took up the post. He is being replaced by Andrew Sellman who has been with the BTR Nylex group for more than a decade.

The resignation of Vincent is part of a boardroom reshuffle at BTR Nylex which is 62 per cent owned by BTR and ranks among Australia's top half dozen companies. Kathleen O'Donovan, who took over as finance director of the UK parent last year, is joining the Australian company's board and Peter Robinson, chief executive of the packaging and building products group, has been promoted to the new position of chief operating officer of BTR Nylex.

It was unclear why Vincent had resigned but London analysts did not think that his departure indicated any change in the underlying performance of BTR Nylex, which has defied the recession better than many local companies. It currently contributes over a quarter of BTR profits.

One analyst said that appointing a chief operating officer at BTR Nylex mirrored what BTR itself had already done. Although BTR prides itself on having one of the flattest management structures of any large company, it felt last year that the growth of its business made it necessary to have a chief operating officer and it appointed Bob Faircloth to the position.

Sailing by to IMI

Alan Emson, who has just been named as the new finance director of IMI, says he feels like a sailor returning to the sea. "It is very nice to be back in engineering" says Emson, 49, who is remembered by the City for his part in the vigorous but ultimately unsuccessful defence of Birmid Qualcast from the hands of Blue Circle.

The Birmingham engineering group, which analysts regard as tightly managed and well-positioned for economic recovery, has traditionally looked inside to fill board positions, but this time there was no suitable internal candidate to replace Gordon Taylor who is retiring, at the age of 60, after 5 years as finance director and 24 years at IMI.

Emson is remembered for preserving his cool during the Blue Circle bid - which in 1988 was declared successful only for the result to be reversed when the votes were recounted - answering the phone with the comment "hello, deputy escapologist speaking". When Blue Circle ultimately achieved its target the following year, in a deal analysts characterised as very favourable for Birmid shareholders, Emson left to become finance director of motor dealership Evans Halshaw. He now explains that move as being largely determined by his wish to stay in the Midlands despite several approaches from London-based public companies.

He says the style of management at IMI - "conservative but granting a lot of autonomy to the divisions and subsidiaries" - is very similar to the old Birmid Qualcast culture, in which he spent 18 years, the latter 12 as finance director.

Evans Halshaw is replacing Emson with Charles Cameron, 36, finance director of the Midlands and the specialty vehicles divisions.

Looking for gold dust

Steve Shirley, probably the computing services industry's best known female entrepreneur, has found a new diversion as she continues gently to disengage herself from FI Group, the privately-held software company she founded over 30 years ago.

She has been appointed a part-time board member of AEA Technology, the services company which used to be the UK Atomic Energy Authority and which this year made a profit for the first time in five years.

This marks Shirley's first directorship of a major company outside FI and her extensive international business experience is expected to accelerate the operation's transformation from government agency to commercial organisation.

Yesterday she described the company as "totally professional at every level, but it does not yet have enough of a service culture. In the past, the emphasis has been on cost containment; it has to be shifted to income generation".

She clearly relishes the challenge. "There is gold dust in there" she enthuses. Her experience of FI Group is also expected to help AEA develop a more participative style of management.

Shirley has been president of the British Computer Society and is, this year, Master of the Worshipful Company of Information Technologists, the 100th livery company to be formed in the City.

Finance moves

■ **Henrik Bjorn**, head of corporate banking, has been appointed chief executive of UNIBANK in London.

■ **Gordon Waddell** has been appointed chairman of the TOR INVESTMENT TRUST on the resignation of John Woollam.

■ **Yoichiro Furuse**, formerly director and general manager of the international planning department of SUMITOMO BANK in Tokyo, has been appointed director and general manager of its London branch; he succeeds Masahiko Koido, who becomes general manager of the main office in Osaka.

■ **Anne Cobb** has been appointed executive vice-president, strategy, for VISA INTERNATIONAL in Europe, Middle East and Africa; she moves from Eurocard International.

■ **Peter Hillyard** has been appointed md, head of global precious metals, and Chris Lambert head of precious metals, London, at BARCLAYS METALS GROUP.

■ **Hugh Hughes** has been appointed chief executive of Société Générale Equities International.

■ **Oliver Baker** has been appointed to the board of CAMPBELL LUTYENS HUDSON & Co.

Dance

My Father's Vertigo

The trappings which surround Amanda Miller's *My Father's Vertigo* for London Contemporary Dance Theatre – an incomprehensible title; a portentous programme note about "the need to dwell" – are tiresome. They reflect something of the taste current in Frankfurt, where Miss Miller (American-born) works with William Forsythe's company. And, as with Forsythe's works, this obscurantism seems a ploy to disorientate the viewer. Yet what we saw on Tuesday, when LCDT gave the piece its first London showing, was choreography of real interest.

The score is an atmospheric string quartet by Fred Frith: music that shimmers, is haunted by echoes and odd glissandi beneath its melodies. Miss Miller's writing (for a cast of five men and six women: uniformly excellent) stresses a sinuous, smoothly muscled language that can look at moments as if action is slowed down, its fluidity almost oily, its pulse irregular as movement slips forward and seems on the point of losing balance. As with Forsythe's work, there is emotionally potent lighting which shifts our perceptions about the dancers through arbitrary change. (There are also hints of the greyness favoured in Frankfurt in the costuming of men in grey tops, black trousers, women in grey frocks, black stockings).

The dance style is unified by its insistance on flowing activity, even if its incidents do not at first seem to cohere. Yet as ideas are repeated, transferred among the cast, the choreography tells of a concern with how energy may move through a body, how muscular force is expended. The music's second movement proposes contrasting quartets for men and women, each with an observer watching from "outside" the action as a dynamic and emotional counter-weight. A later duet between Andrew Robinson and Tom Ward is a fascinating conflict between opposing physiques. Towards the work's end, odd activity – Kenneth Tharp indulging in mute and mimed conversation – seems set to distort the mood. And with every switch of action, Miss Miller's movement world remains intriguing.

Visually the piece is austere, very well lit. The spectral appearance of what I take to be a head of a women by Titian on the grey gauze backdrop is curious, but curiously effective. In matter of composition, *My Father's Vertigo* offers a subtle sense of form and language. It is a bold addition to the repertory, and, as I have mentioned, is danced with grand assurance by its cast. This second *LCDT* programme also includes Mark Morris's *Motorcade* – its dancing still not quite quick enough in musical response – and *Rikud*, last's years brutish acquisition from Liat Dror and Nir Ben Gal, which I prefer not to watch.

Clement Crisp

London Contemporary Dance Theatre is at Sadler's Wells Theatre with this programme until December 5.

Cinema/**Stephen Amidon**

Inspired exercise in bad taste

In 1980, Robert Zemeckis made a remarkable little black comedy called *Used Cars*, one of the most underrated films of recent years. Remarkable because it exuded the sort of good natured bad taste so rarely seen on screen. Since then, of course, Zemeckis has toed the line and raked in the loot, becoming the highest grossing director of all time with films like his *Back to the Future* trilogy.

With *Death Becomes Her*, Zemeckis makes a welcome return to his early low standards. The film is an inspired exercise in bad taste that should appeal to everyone who has ever paid good money to see a freak show or rubbernecked at a traffic accident. It tells the story of an ageing movie star (Meryl Streep) who makes a Faustian deal with a magician (Isabella Rossellini) to regain her youth. The potion she drinks gives her eternal life, which comes in handy when she is murdered by her husband (Bruce Willis) and his lover (Goldie Hawn). She returns to haunt them, only to find that being a zombie has its drawbacks, especially when one of your intended victims is one as well.

It is not the story that is notable here, but rather the striking special effects Zemeckis uses to tell it. Streep's head is twisted backwards, smashed between her shoulders and knocked off its perch altogether; Hawn's midriff is ventilated by a shotgun blast. Both women then proceed to rot for the rest of the picture, winding up looking like microwaved mannequins. If the idea is to put people off the notion of eternal youth, it is singularly effective.

If the above sounds like too much to stomach, it should be noted that it *is* all done in a lighthearted, anarchic spirit. Zemeckis and his buddies at Industrial Light & Magic have made a cartoon using human bodies, capturing the fluidly violent form of the genre as well as its affable nihilism. In his last film, *Who Framed Roger Rabbit?*, Zemeckis perfected the art of placing human and animated figures in the same scene. Now, he has people behave as if they themselves were the cartoons.

The actors get into the spirit of all this quite admirably. Hawn lets herself be ballooned up to a believable two hundred pounds, while Willis plays a boozing nerd like he was to that manner born. Most credit should go to Streep, though, who suffers indignity right from the opening scene, when she performs a truly awful musical dance routine, until the last, when she is reduced to nothing more than a severed head.

But the film really belongs to Zemeckis, who seems to have realised that it is easier being a bad boy once you've banked a half billion bucks. Having become the biggest grossing director of all time, Zemeckis now seems determined to be simply the grossest.

★

The only thing gross about *This is My Life* is its rampant sentimentality. In it, Julie Kavner plays a single mother who sells cosmetics at a New York department store while thirsting for fame as a *stand-up* comic. She *finally gets her* big break, only to find that success sours her relationship with her two daughters, who would rather have mom a failure at home than famous but absent.

Unfortunately, Nora Ephron, whose pen could drip acid when she wrote the screenplays *When Harry Met Sally* and *Heartburn*, seems to prefer syrup now that she is directing her own material. Every time her film teeters on the brink of a real conflict, such as Kavner's use of her eldest daughter's teen angst for material, Ephron retreats into a hollow, feel-good reconciliation, usually accompanied by a cloying Carly Simon soundtrack. To make matters worse, the film is woefully unfunny. If comedy is all about timing, then Ephron's directorial watch needs winding.

The usually superb Kavner is disappointingly listless, while Dan Aykroyd and Carrie Fischer as theatrical agents seem to be reading out the script for the first time.

★

Slacker is the sort of film that achieves cult status by telling the disaffected young that their rebellion is somehow different, somehow more justified, than the uprisings of preceding generations. Set in and about the dreary college town of Austin, Texas, Richard Linklater's drama-documentary charts a day in the life of a group of jobless, aimless 20-year-olds as they drift among the city's coffee houses, bedsits and bars.

DEATH BECOMES HER (PG)
Robert Zemeckis

THIS IS MY LIFE (12)
Nora Ephron

SLACKER (15)
Richard Linklater

THOUSAND PIECES OF GOLD
Nancy Kelly

ELECTRIC MOON (15)
Pradip Krishen

Despite its problematical premise that "withdrawing in disgust is not the same as apathy," the film has considerable charm and real style. Linklater has a wonderful ear for the dialogue of the dispossessed – his wandering characters are often captivating as they opine about Madonna, Elvis, political assassinations and Chaos Theory. They keep you on the edge of your seat by virtue of the fact you never know what they will say next. (You *do* know what they will do, though – nothing). They all suffer from a sort of spiritual Greenhouse Effect, in which insulating values and ideologies have been baked away by an overheated, intellectually noxious culture. The only character seen hard at work is a young man who has locked himself in a roomful of televisions for four years, intent on watching everything.

Fans of Godard and *Wayne's World* will find much to treasure here, though ageing hippies and other fogies may well feel like the character who, when asked to come to a party, declines by explaining he has "less important things to do" than engage in "premeditated fun."

★

Another independent effort from America is Nancy Kelly's *Thousand Pieces of Gold*, which details the life of a young Chinese woman who is sold into slavery by her father. She is transported to 1880s Oregon, where her "master" tries to make her a whore. She rebels against her fate and soon finds herself involved in a difficult relationship with a Civil War veteran.

The film is handsomely shot and features a spirited performance by Rosalind Chao in the lead role. Despite the timely agenda of feminism and an ethnic rethinking of America's western heritage, however, director Kelly's film turns out to be a rather standard melodrama, complete with poker games in a smoky saloon and bad guys with scruffy beards. The hero may be a heroine, but she still rides off into the sunset, her best guy at her side.

★

Electric Moon is another culture clash film that never works up enough steam to make for a real collision. It is set in an Indian resort where Westerners come to experience the real East, only to be duped by the owners, who secretly use stuffed tigers and fake bird calls to convince their guests that they are in some primitive paradise. Director Pradip Krishen's film is an occasionally insightful glimpse into the way people cannot see forests for trees, though its worthiness is undercut by an often tedious pace.

Goldie Hawn, back from being dead in 'Death Becomes Her'

Theatre/**Alastair Macaulay**

The Ghost Train

"Stay *here*? In *Fal Vale Station*? Stay here *all night*?" Saul Hodgkin, the stationmaster, is portentously addressing six passengers who have been stranded without a train till tomorrow morning. He proceeds to tell the tale of the ghost train: "Twenty year ago, *this very night*..." You laugh at the melodramatic spookiness of it; but, of course, you want to know what will happen. These two reactions were just what was intended in 1925, when this play was new; and they must have been hard to bring off then. Harder today, though, because *Ghost Train* is now also a period piece.

Heightening our interest are the facts that the playwright, Arnold Ridley, later became known to every household as Private Godfrey in *Dad's Army*; and that the play was turned into a film (Arthur Askey *et al*). In this revival, Bill Oddie plays the stationmaster who must set the tone for what follows. He draws out the ghoulishness of the big narration nicely enough. But for comedy he is underpowered and disappointing. He throws away numerous opportunities, and is altogether too subdued.

But the exquisite playing comes from his six passengers (one of whom is his real-life daughter, Kate Hardie, playing a newly-married flapper). As a determinedly independent wife marooned with a husband from whom she plans to separate, *Catherine Russell is interesting* and silly at the same time – first-rate. April Elgar, as an indignant spinster, and Aden Gillett, playing a Bertie Wooster-type oaf (with hidden depths), are both astonishingly like period cartoons come to life. She seems to have been drawn by Osbert Lancaster, he by Peter Arno. Richard Stirling and Owen Brenman, as the two husbands, complete this excellent group.

Were everything on this level, this would not seem a wispy play. Roger Butlin's set and Matt McKenzie's sound-effects are perfect. But the period quaintness now stops us from being the least bit scared. And the director, John Adams, *seems* to have rehearsed the first act best. Act Two sags. The hardest role of all is that of the fey and neurotic Julia Price, who, around midnight, invades the waiting-room, mysteriously drawn to the scene of the haunting, resisting the advice of friends and family. It is she who should draw the play to its climax of comic horror; and yet we should suspect her too.

We certainly suspect Sara Mair-Thomas. For all the high accomplishment of her playing, she lacks the lightness of touch that would make Julia persuasive and/or amusing. She also plays the final turnabout too heavily. (There are several revelations in Act Three. Hers is the only one that fails to be hilarious.) And, as her loyal chum Sterling, Jonathan Phillips overdoes everything. These are not disgraceful performances – but, like Oddie, they *are the reason this promising* soufflé does not rise.

At the Lyric, Hammersmith, until January 2.

'Fidelio' in concert

Andrew Litton brought his Bournemouth Symphony and Chorus, and an interesting septet of principals, to the Festival Hall for a concert performance of *Fidelio* on Tuesday. After a couple of Beethoven-less operatic seasons, any *Fidelio* is better than none; and the Bournemouth one was considerably better than that.

Litton has a nice, unshowy grasp of the score: sound tempi, duly accommodating of the voices, and excellent appreciation of Beethoven's long, tension-building *piano* passages, which premature surges always diminish. The orchestra played very well and the chorus were sturdy. Including the "Leonora no. 3" Overture in the place where Mahler intruded it, however – between the spouses' private reunion and the public explosion of relief – was surely a mistake.

That needs a theatrical justification, beyond the original plea for extra scene-shifting time. Here it merely lengthened the performance of an opera which is notably concise, and postponed the human finale for too long. In any case, the homely, domestic aspect of *Fidelio* – its "Singspiel" side – faded with the placement of the singers behind the orchestra. Fine for heroic voices (Leonora's and Florestan's); but deeply unhelpful for little Marzelline and Jaquino, and even old Father Rocco. As the green young pair, Linda Kitchen and the French-Canadian tenor Benoît Boutet were attractive and gracefully musical, and Donald McIntyre's Rocco suggested gruff depths, but from an awkward stance where the action wants to be cosy-cottagy.

Jane Eaglen's weighty Leonora covered the distance in heroic strides, stately rather than tomboyish, but with imposing gravity. As Florestan, the young American *Heldentenor* Edward Cook unleashed some ringing timbre and much erratic feeling: plenty of promise, no cogent grasp yet of the size and shape of his crucial "Gott! welch' Dunkel hier!" *scena*. As hateful Don Pizarro and beneficent Don Fernando, Alan Opie and Matthew Best were more than competent, if slightly less well-focussed than we know they can manage. All in all, though there were no revelations in this *Fidelio*, it gave honest satisfaction.

David Murray

Repeated in Colston Hall, Bristol, on December 3; sponsored by Harveys of Bristol, and Beales

Wigmore Hall recitals

Bartoli and Vollestad

As a Rossini mezzo, Miss Bartoli is more or less perfect. That was a good enough reason for devoting her whole Wigmore Hall recital on Sunday to Rossini. She had the enterprise and taste to stick to proper recital-songs, too, until her dazzling "Bel raggio lusinghier" (*Semiramide*) at the very end. (Her second encore was operatic too, and delivered with no less brilliant finesse: "Tanti affetti", from *La donna del lago*.)

Though Rossini's songs with *piano are without exception* charming, a programme given over to them may seem like a menu consisting entirely of hors d'oeuvres. Usually his little three-part cantata, or monodrama, *"La regata veneziana"* – a regular favourite despite its tricky Venetian dialect – stands out just because of its length, amid all those pretty miniatures which are over within two or three minutes. Here the Bartoli impersonation of excitable Anzoleta, urging her gondolier on to victory, was sly and delectable; but she found whole little worlds of feeling elsewhere, even in the shortest songs.

The voice is lovely, softly burnished and phenomenally flexible (and accurate). With Bartoli Rossini's endless *fioriture*, which require some acrobatic effort from most modern singers and may easily sound like period-routine, become expressive elaborations of the most natural kind, easy and delicate. Were they not so exquisite, they would seem almost artless. We got a virtuoso display of them in five different settings of the same verse, "Mi lagnerò tacendo" – one of them in quintuple time! – each with its own unique inflections, tender or wounded or nobly reproachful.

What crowns Miss Bartoli's art in Rossini, however, is her irrepressible sense of humour. It glints mischievously through most of her singing: it *is* funny *for a voice to be going through* all those intricate hoops, and she shares the joke with us. Particularly infectious was her treatment of Cerere's aria from an obscure cantata, which began with goddess-like frowns, melted into beatific satisfaction and finally went into exultant whoops. Almost a send-up; but faultlessly musical, and bewitching to hear.

For her first encore she switched to Mozart, the "Voi che sapete" from *Figaro*, offering it like the formal serenade which dramatically it is (Cherubino's well-rehearsed song to the Countess) – quite steady, beautifully liquid, without any effusive Viennese sentiment but subtly shaded at the edges. Coming between her triumphant "Bel raggio" and "Tanti affetti", it was doubly affecting.

David Murray

It was the encores on Tuesday that brought out the best in a young Norwegian baritone at his Wigmore Hall recital. For those who have invested in the music of the "Tender is the North" festival, there is the dividend of catching some of the most promising Scandinavian singers of the younger generation.

Per Vollestad made his recital debut in 1986 and has won good opinions for his song recordings since then. With music ranging from Grieg and *Rangström to standard Schubert* and Schumann (the Op.24 *Liederkreis*) this programme was a decent showcase for his talents. Those include a friendly stage manner and a fairly strong, dark-hued baritone, which is shy about its top – when top notes beckoned, be offered a variety of ideas for how not to sing out.

There was nothing coy, however, about his delivery of Grieg's Op.48. Earlier indecisiveness was dispelled and these songs, set to German poetry including Heine and Goethe, were sung in a way that showed they have a grip on their texts, suggesting a more intellectual Grieg than we have met in the series so far. Vollestad's Rangström songs worked well, too. "Melodi" proved a real charmer, for which the singer can take some credit.

Richard Fairman

INTERNATIONAL ARTS GUIDE

■ **ATHENS**

Concert Hall 20.30 Georges Prêtre conducts Vienna Symphony Orchestra in works by Richard Strauss and Brahms. Sat: Grace Bumbry sings arias accompanied by Athens State Orchestra.
Sun: Jeannette Pilou song recital. Next Wed, Thurs: Robert Tear sings Britten's Les Illuminations. Dec 18: Christa Ludwig (722 5511)

■ **BOLOGNA**

Teatro Communale 16.00 *Riccardo Chailly conducts* Pier'Alli's new production of Gotterdammerung, with Siegfried Jerusalem, Sabine Hass and Matti Salminen (repeated Dec 6, 9, 13, 15, 18).
Dec 10: Lyon Opera Ballet. Dec 19: Carla Fracci ballet gala (529999)

■ **DRESDEN**

Semperoper Tonight: Der fliegende Hollander. Tomorrow: Ariadne auf Naxos. Sat: Les Contes d'Hoffmann. Sun, next Wed and Sat: Arabella. Tues: Der Freischutz.
Dec 13: new ballet production including Henze's Tristan choreographed by John Neumeier (484 2731)
Kulturpalast *Sat and Sun*: Jörg-Peter Weigle conducts Dresden Philharmonic Orchestra in Berwald's Violin Concerto (Kolja Lessing) and orchestral extracts from The Ring (486 6306)

■ **FLORENCE**

Teatro Communale 21.00 MaggioDanza production of Coppelia choreographed by Evgeny Polyakov, daily till Dec 11 except Mon and Tues. Dec 17, 18, 19, 20: Zubin Mehta conducts Messiah (277 9236)

■ **GENOA**

Bolshoy Opera brings Borodin's Prince Igor to Teatro Carlo Felice for six performances this month, opening Dec 12.
Bolshoy Ballet gives four performances of Giselle, opening Dec 18 (589329)

■ **THE HAGUE**

Dr Anton Philipszaal 20.15 Jansug Kakhidze conducts Hague Philharmonic Orchestra in works by Sibelius and Rakhmaninov, with piano soloist Mikhail Rudy (repeated tomorrow). Next Wed: members of Hague Philharmonic play Tippett's First String Quartet *and works by Jolivet, Ravel and* Prokofiev (360 9810)

■ **LONDON**

THEATRE
● The Gifts of the Gorgon: world premiere of Peter Shaffer's new play directed by Peter Hall, starring Judi Dench. *Now in previews, opens Dec 16 (The Pit* 071-638 8891)
● Trelawny of the Wells: Arthur Wing Pinero's play about backstage romance among the acting fraternity of late Victorian London. Opens Mon (Comedy 071-867 1045)
● Carousel: National Theatre production of Rodgers and Hammerstein musical, directed by Nicholas Hytner, choreographed by the late Kenneth MacMillan. *Now in previews, opens next Thurs* (Lyttelton 071-928 2252)
● Cyrano de Bergerac: Robert Lindsay in John Wells' adaptation, directed by Elijah Moshinsky. In previews, opens Tues (Haymarket 071-930 8800)
● The Tempest: Yukio Ninagawa's Japanese-language version of Shakespeare's play. Tonight, tomorrow, Sat matinee and evening only (Barbican 071-638 8891)
OPERA/DANCE
Covent Garden Tonight, Tues, next Fri: Madama Butterfly with Yoko Watanabe. Tomorrow, Sat: Ashton's The Dream and Tales of Beatrix Potter. Next Wed: Swan Lake. Next Thurs: Kenneth MacMillan's Mayerling (071-240 1066)
Coliseum ENO repertory consists of Gilbert and Sullivan's Princess Ida, staged by Ken Russell and conducted by Jane Glover, and Hansel and Gretel. Dec 16: new production of The Adventures of Mr Broucek (071-836 3161). Dec 8-Jan 2 at Sadler's Wells: London City Ballet (071-278 8916)
CONCERTS
South Bank Centre Tonight's Bartok programme in Royal Festival Hall is conducted by Bernard Haitink with violin soloist Viktoria Mullova. In **Queen Elizabeth Hall**, **William Christie** conducts Les Arts Florissants in Monteverdi madrigals. Tomorrow: Claus Peter Flor conducts works by Janacek and Dvorak. Sat: Jill Gomez sings Milhaud and Honegger. Sun: Evelyn Glennie in British premiere of Norgard's multi-percussion concerto. Mon and Tues: Haitink conducts Mozart and Mahler. Mon in QEH: English Bach Festival presents Purcell's Dido and Aeneas. Wed: Claus Peter Flor conducts Beethoven's Ninth. Next Thurs: Choir of King's College Cambridge. Dec 21-Jan 16: ENB production of Nutcracker (071-928 8800)
Barbican Tonight: Pasadena Roof Orchestra. Sat: Elgar programme with Robert Cohen soloist in Cello Concerto. Sun, next Thurs and Sun: Colin Davis conducts Sibelius' Kullervo Symphony (Sun), Seventh Symphony and Violin Concerto with Gidon Kremer (Thurs) and Second and Fourth Symphonies (Sun). Mon: Andrew Davis conducts concert performance of Nielsen's opera Saul and David. Dec 16, 17: James Galway. Dec 18: Solti conducts Bruckner. Tomorrow afternoon at **Guildhall**: Elisabeth Söderström masterclass. Barbican's Scandinavian arts festival continues till Dec 13 (071-638 8891)

■ **MADRID**

Madrid Chamber Orchestra plays Bach concertos tonight at Auditorio Nacional de Musica. Tomorrow, Sat, Sun: Aldo Ceccato conducts Spanish National Orchestra and Chorus in works by Beethoven, Berg and Schoenberg. Next Tues: Madrid Classical orchestra plays works by Barber, Brotons and Stravinsky (337 0100)

■ **PRAGUE**

● Jiri Belohlavek conducts Czech Philharmonic Orchestra tomorrow at **Dvorak Hall** in a programme including Gershwin's Piano Concerto (Ivan Klansky) and Ives' Three Places in New England.
Mon: Wihan Quartet plays works by Suk, Haydn and Janacek. Next Thurs and Fri: Gerd Albrecht conducts Dvorak and Brahms (286 0111)● Sun in Dvorak Hall: Czech Radio Symphony Orchestra and Chorus in a programme of sacred music by Czech composers. Sun in Smetana Hall: Bohemia Chamber Orchestra plays Purcell, Mozart and Dvorak (232 2501)● For pre-booking and information about these and other events, contact city centre ticket agencies (Sluna, Wenceslas Square 28 in the passage, tel 260693, or Bohemia, Na Prikope 16, tel 228738, or Melantrich, Wenceslas Square 38 in the passage, tel 228714)

■ **ROTTERDAM**

Rotterdam Philharmonic Orchestra concerts at De Doelen are conducted by Arnold Katz (next Tues, Wed, Thurs) and Bernard Haitink (Dec 15, 20, 23, 27). Next week: Mikhail Lidski as soloist in piano concertos by Mozart (413 2490)

■ **STOCKHOLM**

OPERA/DANCE
This month's repertory at Royal Opera includes Shnitke's ballet Peer Gynt choreographed by John Neumeier (next performances tomorrow evening and Sat afternoon), and the Ashton production of Cinderella (next Tues and Thurs). Dec 17: new production of Cav and Pag. Tonight's performance is Suppé's operetta Boccaccio. Next Wed: Tosca (248240)
CONCERTS
Tonight and tomorrow in **Berwaldhallen**, Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra in works by Nielsen and Bartok. Sat afternoon: string quartets by Stenhammar, Schubert and Carlstedt. Tues: Stockholm Brass Ensemble plays music by Tippett, Walton, Robert Simpson and Malcolm Arnold (784 1800). Tonight in **Konserthuset**: Stockholm Philharmonic Orchestra and Chorus perform Stravinsky's Symphony of Psalms.

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(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1900-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Thursday December 3 1992

Anti-dumping biter bit

"THE US government is using legitimate trade policy instruments and exploiting them to harass foreign competitors and divert world trade flows, unduly blaming imports for what are primarily domestic problems." Thus did a spokeswoman for the European Community react to the US Commerce Department's tentative determination that steel imports from 12 countries, including six EC members, are being unfairly subsidised.

But wait just a moment. Can this be the very EC that last month imposed anti-dumping duties on imports of seamless steel tubes from eastern Europe? Indeed, it can. Nor were those duties nugatory. In the case of Czechoslovak steel, for example, the duty rate was 30.4 per cent.

If anything, the US action looks more defensible than the EC's. Subsidies do distort a market economy, which is why action against "state aids" has been so important to the EC. The measurement of subsidies can always be questioned. The US finding against British Steel, for example, is surprising. But the principle of countervailing subsidies does look reasonably sound.

This does not mean that the US is any less guilty of abusing actions against "unfair imports" than the EC. Countervailing duties are merely another string to its bow. The US steel industry has itself brought anti-dumping cases against 19 countries, preliminary decisions on which are expected in January 1993.

Both the EC and the US find anti-dumping a convenient route towards targeted protection. The calculations of dumping or subsidisation are technical and their details are secret. Best of all, it is difficult for anyone to defend "unfair imports". But such explanations for the popularity of actions against allegedly unfair imports do not make them less worrying. On the contrary, the combination of political acceptability with ease of manipulation is their principal danger. There are three specific concerns.

First, it is too easy to use anti-dumping as a covert tool of industrial policy. Many believe that this is precisely what the EC has done in the case of its duties against imports of electronic goods from Japan and other east Asian countries.

Second, most anti-dumping actions have a weak economic justification. The economic case arises where dumping is predatory. Yet there have been many cases where anti-dumping action has been used not to prevent predatory pricing by foreigners, but to support cartel pricing by domestic firms.

Third, the measurement of dumping (and subsidisation) too often seems entirely arbitrary.

The preliminary US decisions against steel imports from the EC have just one advantage: they demonstrate that what is sauce for the EC goose is sauce for the US gander. Anti-dumping and countervailing duties need to be subsumed within a global approach to competition. If these US actions bring that idea further up the agenda, they will not have been entirely damaging.

Labour dithers

THE LABOUR party is dithering about its relationship with the trade unions. So long as it does so it will remain stuck in a swamp of mistrust. This was recognised in the immediate aftermath of the party's fourth election defeat in a row. At that time – barely seven months ago – the party's national executive was committed to one-member-one vote (OMOV) for the selection or deselection of candidates for parliamentary elections. Proposals to reform the system for electing the leader and the deputy leader were in the air. The union share of voting at the annual conference was to be reduced from 90 to 70 per cent. When he campaigned for the post of leader Mr John Smith declared himself in favour of OMOV.

Since then Labour has divided itself into two camps. The modernisers understand the argument for a complete severance of formal ties with the unions. They are opposed by nature's conservatives, who appear to be in a majority on the special committee set up to study Labour-union links. So far, most of the union members of the committee have put their weight behind a complicated scheme for "registering" Labour supporters within trade union ranks. These would then vote as individuals in local constituencies. It seems like a technical device to avoid OMOV. Proposals under discussion do further reduce the bloc vote at conference, but not, alas, to zero.

If this sounds like dither, Labour apologists reply that these are early days. Mr Smith only became leader in July and he has yet to assert his authority over the links committee. The government's current troubles have demanded his full attention. He is moving steadily. He has, for example, sagely chosen Sir Gordon Borrie to be chairman of the party's commission on social justice. Sir Gordon, until last June director-general of the Office of Fair Trading, will inquire into the tax and benefits system. This is an opportunity to influence the direction and financing of social security policies for the 21st century, as the Beveridge report has done for the latter half of the 20th.

So long as Labour remains in thrall to the trade unions this will not benefit the party. Sir Gordon may produce pearls of the utmost wisdom, but it will not be a Labour government that selects among them for adornment of a government's programme. Social justice may, for example, demand a more targetted system of benefits. Voters will ask themselves "which target – the poor or the public-sector unions?" There has to be a break as decisive as that between the AFL-CIO and the Democrats in the US. The TUC can always send a cheque.

Labour fears that without trade unions to protect it, it might be hijacked by middle-class radicals. There is only one way to avoid that while maintaining a chance of winning general elections. It is to build a new Labour party that merits the support of people acting as individuals, not as the foot-soldiers of the unions.

BT's charges

THERE ARE encouraging signs that BT, the UK's privatised telecommunications company, is now responding intelligently to the challenge of greater competition. The package of price changes announced yesterday suggests that BT is developing a more market-oriented strategy, designed to build its business in an industrial sector which is due for expansion, rather than simply to exploit its near-monopoly position.

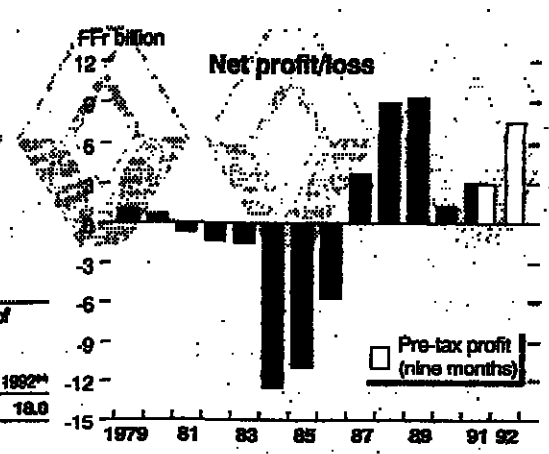
The package is largely aimed at persuading customers to make greater use of their telephones, used for just four minutes a day in the UK compared with six minutes in the US. Call charges are to be frozen or cut, with a modest increase in line rentals to reflect the actual incidence of BT's costs. There will be more generous discounts for big users, domestic and business, with special deals for larger business users.

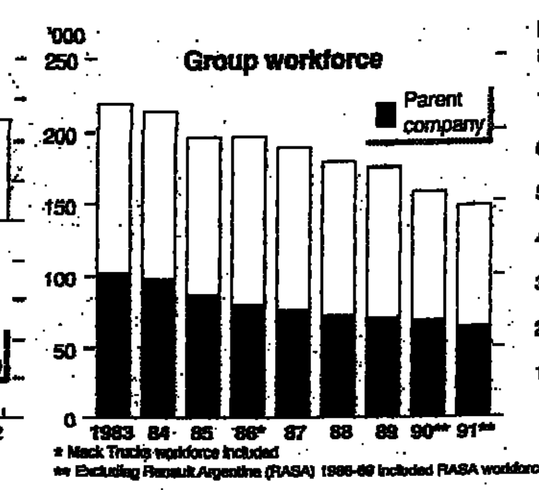
More interesting, BT is beginning to explore the scope for increasing revenues through much larger price cuts. The Sunday special experiment, which offers trunk calls at local rates between 3pm and midnight on Sundays, has doubled call volumes. A similar exercise will cut call charges to Europe in January. There are indications that BT is considering price cuts in the future greater than those required by Oftel, the regulator.

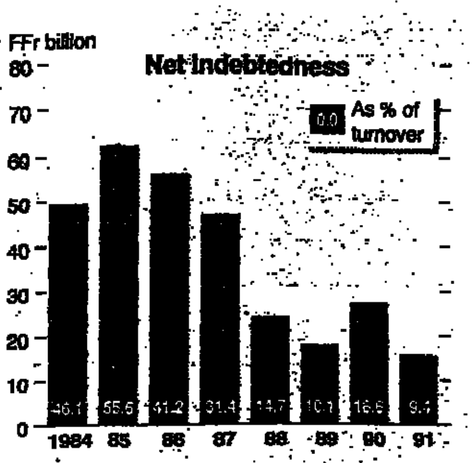
All of this is designed to fend off increasing competition from Mercury, the cable companies and other operators. Next year, it will be possible to access BT's competitors without a special telephone, and eventually users will have portable numbers they can use on any network. BT can no longer expect to dominate the market by its control of most of the local network, and yesterday's package reflects the realisation that the company must win business in a more competitive environment.

This new approach is a reaction to the success of regulation in opening the industry up to competition, through interconnection of networks and open access. And the requirement on BT to separate the accounts of its various businesses will make it easier for competitors to bid for parts of the market. The threat to BT's core business has led to long-overdue management changes and an extensive cost-cutting exercise which is now bearing fruit.

It is, however, too soon to pension off the regulator. A further tightening of the price cap may be necessary when it is next reviewed – BT's profitability is holding up well in the recession. A regulator is also needed to protect BT's competitors from predatory pricing. And the interests of special groups of users must be protected. (Oftel persuaded BT to introduce a special tariff for low-use customers such as the elderly.) BT will retain its dominant position in the industry for the foreseeable future and only active and tough regulation can ensure that this position is not abused.







Productivity trend

Number of cars (Renault 5 as the standard unit of measurement) assembled per person per year (European car division)

1985	1987	1989	1991*	1992**
10.4	14.5	16.4	16.0	18.0

* 16.8 before the strike in October 1991
** Target

Kevin Done explains how Renault has transformed itself after lengthy decline

U-turn on the road to ruin

As Renault executives head for Lanzarote to launch the Twingo, their pioneering new minicar, they travel safe in the knowledge that the once-ailing French car maker appears well on the way to a recovery.

Two of the group's most recently launched products, the Clio small car and the R19 small family car, are both riding high in the closely guarded, confidential quality data compiled by European car makers.

At the recent Paris motor show Renault was the star turn, as it unveiled the stylish Twingo, designed to give the French car maker a more dashing, youthful image in the increasingly crowded European market place.

Renault's share of the European new car market is rising after nearly a decade of decline, and it is finally making headway outside southern Europe in markets such as the UK. In Germany it is ahead of PSA Peugeot Citroën, and Fiat as the leading importer.

Its cost-base is one of the lowest in Europe, although the currency chaos of recent weeks has somewhat reduced the advantage; its productivity has jumped by 50 per cent between 1985 and 1991; and most improbably it emerged in the first half of 1992 as Europe's second-most-profitable volume car maker.

Five years ago Renault was dismissed as the sick man of the west European car industry. The odds on it surviving to the end of the century were not good.

Until 1987 it had been chronically loss-making for six years, with the deficit growing to FFr12.5bn (£1.53bn) in 1984 or 10.6 per cent of turnover. It was heavily unionised, run as a state agency, and was buckling under a huge debt burden. Its net indebtedness reached FFr61.9bn, equivalent to 55.6 per cent of turnover in 1985.

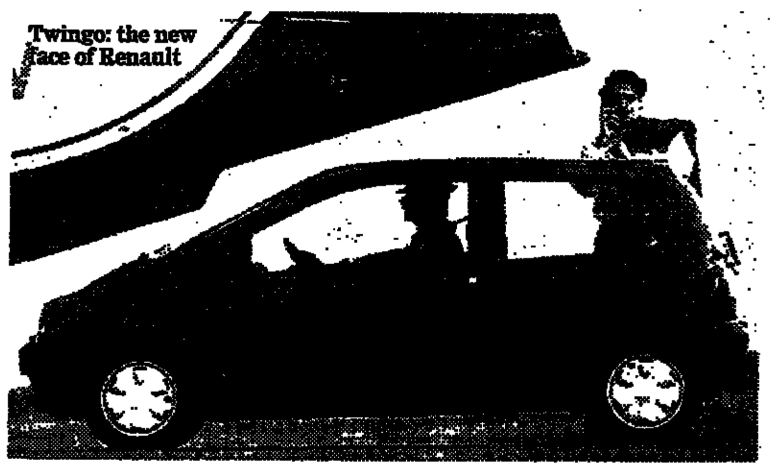
Its recovery from the 1984 loss to a record net profit of FFr9.3bn in 1989 was extraordinary in scale, but its rivals also made good financial progress. The west European car industry enjoyed successive years of record new car sales throughout the second half of the 1980s.

What is special about Renault, however, is its financial performance in the past two years, after it stumbled heavily in 1990 when sales in many of its European markets started to weaken.

As some of its top rivals have faltered – Ford of Europe has plunged into loss and profits at Fiat's car operations have collapsed – Renault has increased its pre-tax profits in the first nine months of this year to FFr7.5bn from FFr2.07bn in the same period a year ago.

Its share of the west European car market has grown to 10.5 per cent in the first nine months of this year from 9.8 per cent a year ago. Registrations of Renault cars and light commercial vehicles rose by 4.5 per cent to 1.28m in a west European market where demand fell by 1.5 per cent.

This performance has been achieved despite both the losses of Renault Véhicules Industriels, its truck and bus subsidiary, and the burden being exerted by Volvo, its Swedish partner, with which it entered a far-reaching alliance in 1990.


Twingo: the new face of Renault

Volvo is making losses in both its car and commercial vehicle operations, which cost Renault's results FFr478m in the first nine months of this year. With substantial cross-shareholdings, Renault now holds a stake of 25 per cent in Volvo Car, 45 per cent in Volvo Truck and 8.2 per cent in the Volvo parent company.

Since the alliance was formed perceptions of the partners' relative strengths have changed. "We are more much more credible to Volvo shareholders now," says Mr Louis Schweitzer, Renault chairman and chief executive and a former high-flying mandarin in the French finance ministry.

"We were seen as a state-owned monster that could not be run as a company, and that could not be run profitably. That prejudice has largely disappeared."

Mr Schweitzer took over at Renault in May following the retirement of Mr Raymond Levy, the former oil and steel industry executive who played the central role in shaping Renault after the mid-1980s.

The hand-over to Mr Schweitzer, formerly chief of staff to Mr Laurent Fabius, when he was successively budget minister, industry and research minister and finally prime minister, was conducted in an orderly way, in contrast to the traumatic circumstances of Mr Levy's arrival at Renault. He arrived soon after the assassination of Mr Georges Besse, then head of the company, by terrorists in 1986.

Renault has come a long way since those dark days, but the tasks facing Mr Schweitzer are no less onerous as he seeks to ensure the company's survival beyond the end of a decade. Europe has become the battle-ground of the world auto industry, and the European car market is being exposed to the full force of Japanese competition.

His priorities are:

- to hasten the passage of Renault into the private sector, and to complete the merger with Volvo,
- to consolidate the quality revolution wrought by Mr Levy,
- to encourage the flow of new products epitomised by the Clio and Twingo ranges,
- to fulfil Mr Levy's mission to Europeanise Renault by easing its dependence on southern Europe and reaching a share of at least 5 per cent in all European markets and,
- to ensure that Renault can compete by the end of the 1990s at world levels of efficiency and productivity in both its manufacturing and its new product design and development operations.

Renault has already been changed into a joint stock company from its earlier status as a *régie*, a state agency. Volvo has a 20 per cent stake, but 80 per cent is still in the hands of the French state.

Complicated political manoeuvres lie ahead, but Mr Schweitzer makes no secret of the fact that he is eager for the alliance with Volvo to be developed into a complete merger. At the same time the group has been stepping up its efforts to prepare international financial markets for its eventual emergence from state control, even though the final form of its privatisation is not clear.

The negotiations surrounding Renault's future appear to have been put on hold until after the French elections in March next year, but Mr Schweitzer is keen to keep up the speed of collaboration with Volvo, whatever pace is set by his shareholders.

"If you stop moving, it is bad; you must keep up the momentum. The advantage of a merger is simplicity and speed. Agreement between two companies does not go as fast as managing a single group. I have a strong priority to strengthen the links as fast as I can."

As long as Renault and Volvo have different shareholders, there will remain the problem of how savings and profits – or losses – are to be apportioned between the two. Mr Schweitzer says, however, that "it is clear there is no way back. A single command structure would help make things go faster."

He admits that collaboration is proving difficult in the two group's truck operations, where they compete more directly, than in cars where Renault and Volvo are more complementary.

Approaches to quality are being harmonised and single directors have been appointed to head the two companies' purchasing and quality operations. Most significant, Renault and Volvo have also appointed a single project director to develop a car platform for a joint top-of-the-range car to emerge at the end of the decade. This would replace the quite distinct Volvo 850 and Renault Safrane executive cars launched over the past year.

Overall a common product plan has been finalised for the next 10-12 years based on the principle of maintaining two distinct product lines and separate identities for both brand names, but with common platforms and components wherever possible.

While the development of the Franco-Swedish alliance is one key to Renault's future, its progress will depend on maintaining the pace of the quality and product revolution evident in its new car ranges. The Twingo will be launched in continental Europe early next year and is seen by Mr Schweitzer as evidence of Renault's determination to "offer a product range that is youthful, strong and innovative".

Designed like a mini Renault Espace – the vehicle that has pioneered the market for "people carriers" in Europe – it is evidence of the growing impact on Renault of Mr Patrick Le Quement, the group's director of industrial design.

Mr Le Quement, who enjoys probably more freedom and influence than any other designer at a European car maker, is the man brought in by Mr Levy in 1987, from a career with Ford and briefly Volkswagen, to build for Renault a clear and distinctive market image.

While Renault is sharpening its styling, the improvement in quality still owes as much to rectification work (the correction of mistakes made during assembly) as to improvements in the manufacturing process, says Professor Daniel Jones, a proponent of "lean production" and co-author of The Machine That Changed The World, the landmark examination of efficiency levels in the motor industry, published in 1990 by the Massachusetts Insititute of Technology.

"What Renault has done in changing its culture is still impressive," says Prof Jones. "They were determined to improve the quality of the product as perceived by the customer." According to Prof Jones, Renault has staged a "product-led revival based on quality", but this is still at the cost of too much rectification work. "They are making significant progress in their factories, but they are not there yet."

Renault is currently on the crest of a wave, but it faces a severe test in the next two years with the European new car market set to decline sharply in 1993.

Mr Schweitzer insists that he will maintain the current "quality priority with an absolute determination, because in the Europe of tomorrow the manufacturers, which do not offer products on the highest quality level will be eliminated . . . Any relaxation of our efforts, any complacency, would condemn us over the long-term to oblivion."

BOOK REVIEW

Like father, like son

JFK. LIFE AND DEATH OF AN AMERICAN PRESIDENT
Volume One: Reckless Youth
By Nigel Hamilton
Century. £20. 898 pages

Jack Kennedy would never have become president without his father, Joe.

The bootlegger, stock market swindler and ambassador to the Court of St James under Franklin Roosevelt was relentless in his pursuit of power, whether in bed or the boardroom. But aside from a brief flirtation with the idea of running for the Democratic presidential nomination in 1940, Joe Kennedy steered clear of a career in national politics, preferring instead to fulfil his own ambitions through his nine children.

Kennedy senior once remarked of his daughter Eunice that if she had "been born with balls she would have been a hell of a politician". In the event, it was Jack who made the grade, an outcome which was by no means a foregone conclusion, as Nigel Hamilton suggests in the first volume of this affectionate biography.

For much of his early life, Jack Kennedy was racked by back pain and Addison's disease: his academic achievements were nothing out of the ordinary; and he laboured long in the shadow of the family favourite and eldest son, Joe Jr, who later disappeared on a suicidal bombing mission en route to northern France, long after his normal tour of duty was over.

Hamilton's thesis is that Kennedy's youth provides most of the clues for understanding the future president. Behind the playboy facade, a serious person was struggling to emerge, according to this biographer, who produces interesting examples of Kennedy's early work as a journalist and student. But the impression remains of a certain recklessness, a desire to live dangerously.

Sex is a *leitmotiv* in JFK's life, as this biography sets out in detail, thanks to dozens of private letters obtained from Lem Billings, a boyhood friend of the future president. Jack Kennedy loved dangerous liaisons. In war-time Washington, he found Inga Arvad, whom the FBI falsely suspected as a Nazi spy. Twenty-five years later, J Edgar Hoover was preoccupied with Kennedy's friendship with Judith Campbell, paramour of Sam Giancana, the Mafia boss.

All rollicking stuff, but Hamilton's *preoccupation with JFK's* health (75 references) and sexual encounters and attitudes (31 references) leaves him prone to psychobabble. At one point, he compares Jack's tyrannous father to Joseph Stalin, asking improbably: "Moreover, was there not a complete black-out of news of his father's true behaviour, from assaulting woman guests to lobotomising his daughter? Kennedy and Stalin even shared the same name."

Hamilton's focus on character has merit, if only because he brings out the mixture of diffidence, charm and wit which made Jack such an irresistible political commodity. He also traces Kennedy's progress to political maturity, where, thankfully, the young student and journalist ditched his father's isolationism and craven appeasement of Hitler.

The weakness in this approach is that he tends to skirt over more important lessons about Kennedy and his extraordinary family. By far the most telling is the power of money and privilege in America. Thanks to his father's wealth, Jack Kennedy attended the finest universities (Princeton, Harvard and Stanford); he had tea with Princess Elizabeth; he visited France, Germany, Poland, and Russia on the eve of the second world war; and he attended the Potsdam conference in 1945, coming into contact in a matter of weeks with virtually all the players on the international stage including Truman, Eisenhower, Molotov, Harriman, Gromyko, Eden, Churchill, Attlee and Bevin. Not even 30 years of age, Jack had a singular opportunity for a man obviously being groomed for the highest office.

To some extent, Jack Kennedy made his own luck. He became a war hero after his PT-boat was rammed by a Japanese destroyer in the Pacific. Hamilton's account of this episode is probably the fullest and most dramatic to date, capturing the mixture of recklessness and personal courage which made him front-page news.

Behind the glory, however, there were worrisome tendencies. Like his father, young Kennedy suffered from an inclination to look for short-cuts. For example, he was late in filing to run for the 11th congressional district in Massachusetts, the race which launched his career in national politics. "A series of frantic phone calls was made," writes Hamilton. "In the end, money and influence prevailed."

At the end of this volume, Hamilton claims that Jack had reinvented the Kennedys. He had "escaped from his father's and his elder brother's Boston-Irish bigotry and found a pluralist, idealistic and internationally defined liberalism that would, one day, define a generation of Americans."

But in the light of what we now know about the misjudgments and brinkmanship of JFK's presidency, Hamilton, in his next volume, will have a hard job revising contemporary judgment among American scholars that as a character Kennedy was flawed, and as a president overrated.

Lionel Barber

ECONOMIC VIEWPOINT

EC – time for normal budget principles

By Samuel Brittan

The economic generalist cannot hope to rival the knowledge of the enthusiastic specialist. But occasionally studies made by analysts of a relatively unbiased outlook come to his rescue. Thanks to a Chatham House study by Sir Michael Franklin and an Institute for Fiscal Studies one by Stephen Smith*, I am emboldened to enter the area of the EC budget, which has emerged as one of the most contentious issues for the Edinburgh summit, and express some ideas which are "European" without being *communautaire* in the Brussels dirigiste sense.

The EC budget is likely to amount to well over Ecu60bn in 1992. If you take off a fifth to convert it into sterling and add a fifth to convert it into dollars, you have a rough idea of its order of magnitude. It is limited to a ceiling of "only" 1.22 per cent of the combined gross national product of the Community – a proportion of GNP representing 4p on the basic rate of UK income tax.

The Common Agricultural Policy still accounts for the lion's share of Community expenditure, although it is down from 80 per cent in the 1970s to 58 per cent. But Sir Michael fears that it may not fall much further for the remainder of the 1990s, as the reduction of price supports envisaged by the MacSharry plan will for a time be more than offset by an increase in direct grants to farmers.

The next largest item, accounting for nearly 30 per cent of the budget, goes to the Structural Funds, a combination of the Regional and Social Funds, the mere names of which cause Labour economic spokesmen to salivate with pleasure. The Regional Fund was originally conceived as a way of channelling money to the UK via its depressed areas. But the net gains turned out to be small and the Commission argued for greater discretion on the use of resources. Today Ireland is plastered with notices saying: "This project is financed from EC funds."

The traditional revenue source for the EC budget, customs duties and levies on imports, now accounts for only a fifth of EC income. Some two-thirds of total revenues now come from cash payments from governments. Member countries are taxed partly by a so-called VAT levy. This is a misleading name for a tax based on the proceeds of an imaginary VAT with a yield of 1.4 per cent on an agreed standardised basis. The deficiency is made up by direct contributions related to GNP.

The UK rebate is 66 per cent of the difference between its share of attributed Community expenditure and an adjusted version of its VAT contribution. Other members contribute to the rebate in proportion to their share of Community GNP, with an alleviation of a third for Germany. Unfortunately, a British proposal in the early 1980s to seek a budgetary safety net of general application was rejected.

The sources of present tensions emerge from the table and chart. Luxembourg, which has the largest GNP per head by a suspiciously high margin, is a net beneficiary. The UK, with a slightly below-average GNP, is a net contributor even after the rebate. Spain has the biggest legitimate grievance. Its GNP per head is put at 75 per cent of the EC average. But its net receipts amount to less than 1 per cent of GNP, much less than that of the other poor countries and not much more than that of Denmark, which according to the official statistics, is the second-richest member after Luxembourg.

All the main Efta applicants for EC membership, such as Sweden, Switzerland and Austria, are prosperous countries which should make modest net contributions. Czechoslovakia and Hungary could be financed from the net receipts of Efta applicants; and even Poland would not break the bank.

The Commission disputes the whole principle of net balance. It is said to be impossible to put a cash value on countries' non-budgetary gains from EC membership. A more convincing argument relates to the "Rotterdam effect". The Dutch contribution, for instance, is inflated by customs levied on goods shipped through Rotterdam even if they are destined for other members. Even more to the point: CAP purchases to maintain prices in any one country benefit all EC farmers.

The original Delors proposal was to increase the structural funds by about a half in net terms between 1992 and 1997 and increase the direct "GNP" contribution. This would provide the resources for yet another instrument known as the Cohesion Fund for environmental or "trans-European" projects in the poorest states.

The pre-Edinburgh discussions look for a redistribution of expenditure and sources of revenue to rectify anomalies. The UK wants to maintain the present 1.22 per cent of GNP budget ceiling for another three years and then go up to 1.25 per cent in 1998-99. The Commission and the southern countries are prepared to stretch the timetable to 1999, but still want to increase the EC budget to 1.37 per cent.

This is hardly the issue to turn John Major into a national hero. Would it not be better, as Franklin suggests, to have an explicit budgetary key in which a corrective factor would be applied to overrule unadjusted budgetary transfers when they produced absurd results. Mervyn King, the present economic director of the Bank of England, showed in an earlier incarnation that a modestly progressive system of EC net payments would make Spain by far the largest gainer, without the Spanish government having to build a single unwanted bridge or dam to extract the cash from Brussels.

A corrective override would have enormous advantages. The Commission would no longer have, in Sir Michael's words, to "propose programmes, sometimes of doubtful efficacy, as the sole means of achieving transfers to poorer countries". Indeed a smaller budget could lead to larger redistribution – especially if the concept of negative payments were allowed. The UK and Spain would be treated under the same formula.

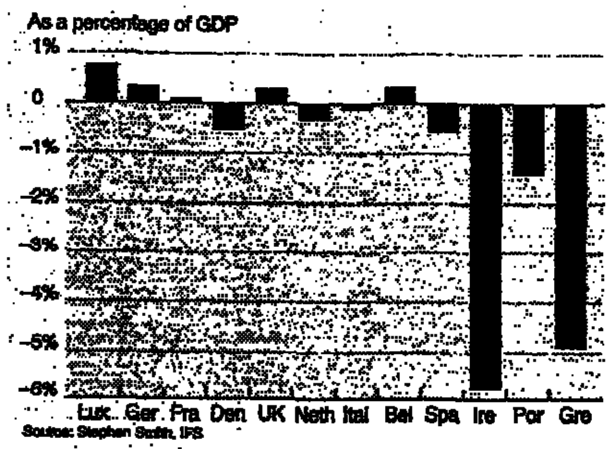
What are the obstacles to such a single payments key? Above all it is the desire of the Commission and its sympathisers in member governments to increase the EC budget for its own sake as a *communautaire* gesture. This is paralleled by the so-called reflation initiative, in which all the emphasis is placed on spending increases, national and Community, when a better effect might be obtained by a temporary tax cut, and where the gains from international co-ordination would be clearer.

A late-hour switch of UK attention from the size of the EC budget to an ability-to-pay formula would be regarded as an anti-EC gesture. But good ideas need not die and this one should be kept alive when it is discovered that neither Maastricht nor Edinburgh has solved the main problems of the Community.

**The EC Budget, Royal Institute of International Affairs, London SW1; Fiscal Studies, Nov 1992, London WC1E 7AE.*

A budget key would make Spain by far the largest gainer, without it having to build a single unwanted bridge

Net contributions to the EC Budget 1990



Source: Stephen Smith, IFS

EC budget 1992

Ecu bn	Before UK rebate	After UK rebate	GNP per head
Net contributors			
Germany	8.5	9.0	116
UK	5.0	3.0	95
France	0.9	1.5	114
Netherlands	0.0	0.1	101
Net recipients			
Denmark	0.5	0.5	129
Italy	1.1	0.6	109
Luxembourg	0.7	0.7	173
Portugal	1.2	1.1	42
Belgium	1.7	1.6	105
Ireland	2.4	2.4	60
Spain	3.2	2.9	75
Greece	3.9	3.9	38

Source: Michael Franklin, RIIA

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Attitude on castle style 'amazing'

From Mr Michael Manser.

Sir, Your architectural correspondent applauded ("A foolish plan to reinvent Windsor", November 30) the renovation of run-down Windsor Castle by its "complete transformation" in the 1820s by Jeffrey Wyatville in the style of his time.

However, he then declared himself amazed that the Royal Institute of British Architects has reacted to the fire at Windsor Castle by suggesting that a distinguished architect of today should also respond to the fire in the style of *his* time.

Michael Manser,
Manser Associates, architects,
Bridge Studios,
Hammersmith Bridge,
London W6 9DA

Reform of EC farm subsidy system would lift economies

From Mr Patrick O'Brien.

Sir, The best way to revive the European economy, reduce inflation and help the poor would be to change the Common Agricultural Policy from a price support system to one based upon deficiency payments related to the difference between world market prices and intervention prices. This was the British system of agricultural subsidy before joining the Common Market.

The present CAP costs the average family £12 a week in artificial prices plus taxes to subsidise exports of surpluses. Abolishing the CAP, so reducing food prices, would be equivalent to a benefit of £12 a week helping the poor and families most because they spend a greater proportion of their income on food.

Farm support would be paid directly to farmers but limited to the level of deliveries made by each farmer in previous years under the CAP so that any extra production could only be sold at world price. Thus, farm outputs would be related to the market price not the intervention price. There would be savings in the cost of bureaucracy besides eliminating the storage and sale of surpluses. The objections of other agricultural countries to European farm subsidies would be removed because export subsidies would be ended.

Some might think it not unreasonable that each country should pay the subsidy claimed by its farmers instead of Britain subsidising foreign farmers as at present.

Are our politicians capable of seizing this chance which has only occurred because of the recession and disarray of the CAP?

Patrick O'Brien,
2 Evening Glade,
Ferndown,
Dorset BH22 8DB

A good read at breakfast

From Mr Ulrich Selzer.

Sir, In his Business Book review, "The high priest of Moggonomics", Barry Riley stated that students nowadays neither have breakfast, nor do they read the Financial Times.

Neither statement holds true for myself. Every morning, I take explicit pleasure in walking down three floors to the mail-box to pick up your excellent product. Returning to my continental breakfast, containing whole-wheat bread, eggs, muesli, milk, orange juice and cappuccino, I enjoy a lengthy 40-minute breakfast before setting out for the day.

It is my belief that the quality of your life reflects on the quality of your work. Together with a healthy breakfast to satisfy my physical needs your newspaper provides me with the perfect start for a 16-hour working day.

Ulrich Selzer,
student, breakfaster and
FT-reader,
Adam-Karrillon-Strasse 56,
6500 Mainz,
Germany

Statistics not reliable

From Mr Bohdan Skrobach.

Sir, The use of economic statistics from the former Soviet Union in the article "Managing divorce between Moscow and Kiev" (November 23) is not a very reliable way to attempt to define future relationships of the new states.

The Soviet Union was a command economy. None of the republics was a national economy that controlled what it produced and where it was consumed. Inter-republic trade was a result of central policy and not "market" conditions. When the Soviet Union became obsolete so did its economy. New states, like Ukraine, will completely rebuild their economies. They certainly will have little resemblance to their past.

It is therefore impossible (using Soviet data) to forecast how the economic spheres of the states should or will develop, just as no one could have foreseen the reconstructed postwar Japanese economy produce major links beyond Asia.

Bohdan Skrobach,
25 Sherwood Avenue,
Apt 415,
Toronto,
Canada

Self-regulation requires clear differentiation

From Mr Charles Abrams.

Sir, Recent articles and letters in the FT clearly indicate that a bandwagon to end self-regulation of the securities industry is gathering speed. As a lawyer, I would not get involved in the political debate. However, I would note that the question of whether self-regulation should continue is different from the question of who finances the regulatory system. Similarly, even the regulators in a self-regulatory system can be given powers to investigate and prosecute insider dealing and securities fraud.

If it is indeed proposed to have self-regulation for some sectors and statutory regulation for others – as suggested by Mr Yassukovich, a former regulator (Letters, November 10), and Lord Alexander – it is in my view important to insure that what are called private clients are kept on the self-regulation side of the line along with the wholesale markets (albeit with more detailed rules), rather than regarded as part of the retail sector.

Private clients are the typical client base of stockbrokers, merchant banks and the very important UK and overseas private banking sector. Those institutions are not the same as the high-street investment advisers and insurance company tied agents, and their regulators and conduct of business rules should similarly be different. Private clients are in particular high net worth individuals. However, retail market clients are also individuals. It is very difficult to differentiate between them and, in my view, the dividing line should be drawn on the basis of the product concerned.

The distinction should be between securities, derivatives and in-house funds on the one hand and what are referred to as packaged products, namely life policies, authorised unit trusts and Securities and Investments Board-approved mutual funds, on the other. Packaged products already have their own regime; for example, and importantly, it is only packaged products which are subject to the polarisation rules which distinguish so firmly between tied agents and independent advisers. This differentiation has the added advantage that it is merely separating out what is already an existing self-contained regime.

Changes to self-regulatory organisation (SRO) rules to help prevent Maxwell-type abuses can be required by the government even under the present system; the rule books have to be written on the basis of statutory guidelines and SROs must include rules that the SIB insists on. Under the present system of self-regulation within a statutory framework these changes can be brought in quickly. If the rules are wrong, there is no need to substitute statutory regulation merely to get them right.

Charles Abrams,
S J Berwin & Co,
222 Grays Inn Road,
London WC1X 8HB

OBSERVER

Jefferson in blue jeans

■ It sounded odd a month ago when Germany's official welcome of Bill Clinton's victory called him "William". But perhaps the German government knew something nobody else knew then.

With the announcement of plans for January's presidential inauguration, humble Bill has suddenly become not only William but also Jefferson, which happens to be his middle name and quite a convenient one for any US president.

In sketching out the four-day inaugural celebrations, Democrat chairman Ron Brown talked of the national "rite of passage". In reality what Washington is going to experience is a right to party.

It includes 10 inaugural balls (which at $125 a ticket are cheaper than Reagan's and Bush's bashes), eight big public events including a special party for the homeless with the admission fee being food and clothing, and a "gathering" for diplomats at Georgetown University, Clinton's alma mater and also home to the US school of foreign service.

The total bill will also undercut the Reagan and Bush inaugurals at around $20m – 90 per cent funded, like Norman Lamont's legal bills, by private contributors with the rest coming from sales of officially sanctioned souvenirs.

For the socially conscious, William Jefferson Clinton will wear black tie to the balls, but jeans to his Arkansas party.

Banking on

■ Merchant bankers are always terribly discreet, so it's impossible to know whether Warburg's Sir David Scholey really has ruled himself out of the race for the governorship of the Bank of England by accepting a directorship of GEC. But that is what many may suppose.

Given that a decision on the bank job is expected before the year-end, it would have been easy to delay his membership of the GEC board for a few more months. Perhaps he's playing hard to get, but Ladbroke's Paul Austin for one thinks that Scholey is no longer a contender. He stopped taking bets on the governorship stakes yesterday.

Before the GEC announcement, Ladbroke had Scholey as four to five odds-on favourite, followed by Sir David Walker, Eddie George and Rodney Galpin. News of Galpin's early retirement from the Standard Chartered chairmanship is unlikely to increase his chances of being first at the Threadneedle St post, and Walker still looks the clear favourite over home-stable candidate Eddie George.

Even so there could be some surprises in the final furlong. A couple of longshots which might be worth backing are Sir Christopher Hogg, boss of Courtaulds and Reuters, and Sir Jeremy Morse, who steps down from the chairmanship of Lloyds Bank in February.

The problem is that, like Scholey perhaps, they might well not want the job in its present form.

Hauled down

■ The backlash following neo-Nazi violence against foreigners in Germany has now brought down one of the heads of the country's aerospace industry – and all because he flew the wrong flag in his garden.

He is Karl Dersch, abrasive president of the industry's federation BDLI as well as on the board of the Deutsche Aerospace subsidiary of mighty Daimler-Benz, and one of Bonn's great defenders of the European fighter.

"I thought my G band was an erogenous zone"

Amid rebounding repugnance for all tokens of nationalism, his Daimler bosses were appalled by press reports that the flag flying in front of his house was the Reichskriegsflagge, a pre-1918 standard bearing an imperial eagle and the iron cross.

Hence Deutsche Aerospace's blunt announcement that he'd be resigning because, according to the company's chief, Jürgen Schrempp, that was the only way to save Daimler-Benz's interests from further damage.

Although the Reichskriegsflagge is now the emblem of skinhead gangs terrorising refugees and asylum seekers, the ousting might seem a bit hard on Dersch. In pre-skinhead days the flag was regarded as the one acceptable symbol of German national pride, representing the "unspoiled" imperial navy.

Even so, it is not the first corporate flap he has created. He was a prime mover behind the "Peenemünde affair" in August, when the BDLI chose to celebrate the 50th anniversary of the flight of the first V2 rocket. He dismissed subsequent British protests as "hysterical", but was overruled by higher authority as being insensitive.

Few tears are being shed over him at Daimler-Benz headquarters...except the embarrassed variety.

Old boy rivalry

■ While the acquisitive TT Group's boss, John Newman, takes umbrage at being called a copy-cat, that is the way things would seem.

One after another, the members of the Hanson old-boys' club are taking to the acquisition trail. Greg Hutchings' Tomkins is buying RHM, a couple of old Hanson hands at Wassall are bidding for Evode, and now TT Group is buying AB Electronic.

Newman, aged 47, was the first of Lord Hanson's acquisition chiefs to go off on his own, and his public company remains the smallest and most lowly rated of the three. He keeps in touch with Hutchings, but plays down any rivalry.

Meanwhile Bob Cowell, who master-minded Hanson acquisition strategy in between Newman and Hutchings, assures me his Makinson Cowell business has no plans to join the fray. But isn't it time that Lord Hanson himself showed his buying mettle?

Hot topic

■ In time for the Queen's Christmas stocking, at least, is the book, Fire Protection in Old Buildings and Historic Town Centres, just published by the Fire Protection Association.

FINANCIAL TIMES
Thursday December 3 1992

Closer ties spark Swiss passion

Emotion marks a referendum on links with Europe, writes Ian Rodger

The Swiss are known for many things – reliability, tolerance, self-discipline – but not for outbursts of emotion.

Thus, when one Swiss farmer calls a federal cabinet minister a traitor, and another tells a francophone Swiss minister that he has no right to speak publicly in German Switzerland unless he uses a Swiss German dialect, it is apparent that something unusual is happening.

What it is is a political campaign for a national referendum this Sunday on whether Switzerland should join the European Economic Area, an expanded free trade zone uniting the seven countries of the European Free Trade Association, including Switzerland, and the European Community.

The Swiss themselves are surprised at how passionate the debate has become. "It is the first time I have ever been interested in politics," says Ms Monika Ziegler, a Zurich hairdresser who keeps a briefing paper at her side to answer customers' questions on the subject.

Opponents claim ominously that the EEA is the first step down the slippery slope to membership in a centralised EC and the loss of cherished Swiss independence, neutrality and prosperity. Advocates believe just as passionately that it offers the best chance to avoid a stifling isolation that would gradually sap the vigour of the country's economy and peoples.

Coming when the country's economy has faltered badly, the issue has sent normally self-assured Swiss citizens into turmoil about which way to vote. Opinion polls show sentiment evenly split overall, but with a large proportion of voters, about 30 per cent, still undecided.

Tension is added by the requirements for not only a national majority in the referendum but also a majority in at least 12 of the 23 cantons for the treaty to be ratified.

Another worrisome feature is the unusually sharp difference in sentiment between the German-speaking majority, which tends to be uneasy about closer ties with the EC, and the French-speaking minority, which favours them.

Government leaders admit that in the event of a rejection of the treaty the country's delicately balanced political system would be thrown into crisis.

For those outside with interests in Switzerland, the importance of the vote should not be exaggerated. Existing free trade and several other treaties between the country and the EC will carry on even in the event of rejection. The near-term impact on the economy will be marginal.

'It is the first time I have ever been interested in politics,' says Zurich hairdresser, Monika Ziegler

The big Swiss banks and multinational companies will be unaffected either way as they already have established bases in EC countries.

And a political crisis would undoubtedly be defused in due course. The spectre of a break-up of the confederation and the creation of a separate French-speaking state is not on, given the economic weakness of the six francophone-dominated cantons.

But for the moment, the country is in an uncharacteristically feverish state. Mr Jean-Paul Delamuraz, the minister who was criticised for not speaking Swiss German in Schaffhausen three weeks ago, laments: "Reason and truth do not seem to have a place in this debate any more."

Although the campaign had been in the offing for months, it got seriously under way only about four weeks ago. The government was quietly confident of victory, having assembled an extraordinary alliance of the leadership of nearly every important branch of society – banks, industry, trade unions, even farmers.

But in the initial weeks of the campaign, the opponents made all the running, conjuring up visions of floods of immigrants and domination by an insensitive Brussels bureaucracy. Two weeks ago, a poll showed a clear plurality of voters against the EEA and the anti forces gaining ground.

Alarmed, the pro camp rolled out its big guns. Brown Boveri, the engineering group, wrote to its suppliers warning of loss of business if the treaty was rejected. Roche and Sulzer, two other big companies, said they would cancel investment projects in Switzerland.

In one of the most moving appeals, Mr Walter Frehner, chief executive of Swiss Bank Corporation, said in Zurich last week: "I am against the offshore mentality being promoted by the EEA opponents. I want to leave my children a Switzerland whose strength is not just its neighbours' weaknesses, a Switzerland which does not consist only of hotels, banks and holding companies."

By the end of last week, polls indicated that, while the number of undecided voters was still high, there had been a decisive swing, with 46 per cent in favour and 38 per cent against.

If the treaty is accepted, the turning point will probably be seen as the night when two cabinet ministers faced a hostile public in a nationally televised debate at Schwyz, the central Swiss town where the confederation was formed in 1292. After the ministers spoke in the hall holding the sacred federal archives, a farmer stood up and called them traitors. The outraged ministers dropped all pretence of civility and responded so vigorously that, by all accounts, they won sympathy throughout German Switzerland.

For the Swiss, the most controversial element of the EEA treaty is the obligation to take on the EC's so-called four freedoms – of movement of capital, people, goods and services. Anti-EEA campaigners have been able to appeal to the deep seated fear in most Swiss of foreigners overrunning the country, some taking jobs away from locals by accepting lower wages, others buying up every available Alp. In fact, in the past couple of years, as a result of recession, there has been a net outward flow of people to EEA countries, and this is likely to persist.

EEA advocates say that the real beneficiaries of freedom of movement will be the Swiss who will be able to study and work freely in other EC countries. Research-oriented Swiss companies fear they will not be able to attract talented scientists if the treaty is rejected.

Another troublesome element

'Reason and truth do not seem to have a place in this debate any more,' says a Swiss minister

of the treaty for the Swiss is the supremacy of EC law in all of the areas covered. Opponents have emphasised how the Swiss will no longer be able to have the final say through plebiscites on every important issue.

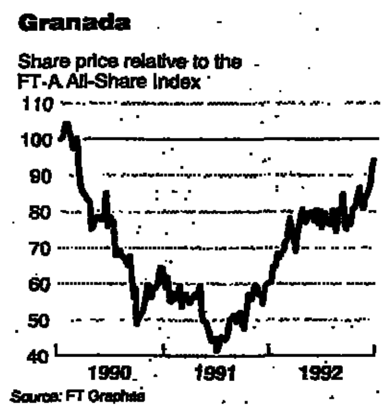
Advocates counter that the EEA is nowhere near as intrusive as EC membership would be. The EEA has no impact on heavily subsidised Swiss agriculture, except insofar as it should bring about a reduction in the cost of imported machinery and other farm inputs. And it does not threaten Switzerland's monetary independence or bank secrecy. Nor does it cover defence, and so does not undermine Swiss neutrality.

As Sunday approaches, the tide seems to be firmly in the direction of approval of the treaty. But swinging a majority of cantons into the Yes camp still looks difficult because of the large number of small cantons in the German-speaking part of the country. Also, the external environment is not exactly helpful. Seldom have European institutions looked so unattractive.

THE LEX COLUMN

GEC cashes in

FT-SE Index: 2764.1 (-27.9)



Source: FT Graphite

GEC's long-standing reputation as a dull performer has certainly not been reflected in the share price over the past year. The company has made strenuous efforts to offset the slow-down in business areas such as defence with international joint ventures. Perhaps the most notable of these is the collaboration with Alsthom, and power systems profits duly increased by 18 per cent in the first half. Still, the image of GEC as a hoarder may be reinforced by the appointment of a senior merchant banker to the board and the effective cash inflow of £405m in the past six months. The second half will not see such a torrent, but next year the company is likely to pull in at least another £200m in cash.

What happens to the money seems to fascinate observers rather more than it does GEC. Investors may fret that while a cast-iron balance sheet can be a support in troubled times, once recovery is on the way cash becomes a drag. GEC has hinted that the relaxation of the government's rules about private sector participation in infrastructure projects may offer opportunities. Perhaps the company might provide lease finance to British Rail so that it can afford to buy GEC-manufactured trains. But given sloth in Whitehall and Lord Weinstock's well-known caution, it is hard to see this blossoming quickly.

Supporters may argue that the company will benefit from devaluation, but GEC will need to invest into the recovery if it is not to repeat its under-performance of the 1980s. If opportunities are not available, shareholders might prefer to keep some of the cash in their own deposit accounts.

Granada

If Granada's problems have not proved as great as feared, its recovery has also been swifter than expected. Since his arrival as chief executive just over a year ago, Mr Gerry Robinson, dismissed as a mere caterer by television professionals, has helped lift Granada's shares by more than 80 per cent, adding some £600m to its market value in the process.

Shedding 8 per cent of the company's workforce (with yet more to come) and ruthlessly squeezing cash has worked financial wonders. So have ingenious schemes to tickle growth from mature rental and television businesses – as yesterday's 129 per cent profits improvement on near static sales amply illustrates. A £21m turnround at the troubled computer services business also helped.

But Granada is still struggling back to first base. Profits remain £34m adrift of what they were three years ago and with the benefits of the bounce fading, the question looms of what rate of growth Granada can now sustain. The market was impressed by the revitalised potential of the computer business and Granada's ability to milk cash from motorway service sites and TV rental shops, even in recession. Further out, Granada's BSkyB stake adds extra spice and some acquisitive growth can be expected to kick in. But moving from cutting to growing mode can prove difficult. A forward rating of 15 allows for little pause for consolidation.

Bass

Bass may rightly pride itself on its decision to tackle the government requirement to reduce its tied estate early and decisively. By selling pubs before prices were too depressed, it realised healthy profits for its shareholders. With a smaller estate, though, it has paid a heavy price in the form of a 25 per cent slide in pub retailing profits for 1991-92. The hangover, though less acute, will also continue in the current year.

True, there were other factors behind the retailing decline; internal pricing arrangements mean the brewing side may have gained at the expense of its retailing division. The company is also stepping up its spending on pub refurbishment, which had been neglected while the estate was being shrunk. That should bring returns eventually, though it will be 1994 before the normal maintenance cycle is back on track. The underlying message from yesterday's results is that recovery, both from the recession and the beer orders upheaval, will be slow in coming through.

Yesterday's 3 per cent share price drop looks a reasonable response, especially given the company's determined caution on current trading as the Christmas season looms. But it would not do to get carried away. Holiday Inn will be helped by higher franchise rates and currency gains even though room rates have yet to respond to the tentative US recovery. Bass also looks particularly strong in brewing. With costs under control it is well-placed to push for higher market share.

UK Gilts

Yesterday's gilts auction was an inauspicious affair, with demand little better than at the last auction in August. More seriously, the sale attracted barely a modicum of overseas interest despite the normally popular 10-year maturity. Admittedly foreigners have been net sellers of gilts since sterling came out of the ERM, so there was little chance of a stampede. Some may also be reluctant to commit funds so close to the year end. The Bank of England will doubtless hope to drum up more enthusiasm if it decides to auction more of the same stock in the spring.

Something will have to give, though, if overseas investors are to provide more than grudging support for the funding programme. Gilts yielding 1.3 percentage points more than German bunds were attractive enough while sterling was inside the ERM. They look far less enticing now that Mr Major's government is free to pursue growth ahead of lower inflation. Sterling's devaluation since then leaves more room for currency gains, especially if the dollar resumes its upward march against the D-Mark. On yesterday's auction evidence, however, overseas investors are not convinced that sterling has hit bottom.

Little wonder gilts do not have much credibility as a safe haven from turbulence within the ERM. Thus the yield differential between gilts and French bonds widened this week as the latter rallied in expectation that any devaluation of the franc would be coupled with lower interest rates. International investors prefer to take their chances with the Bundesbank rather than place trust in Mr Major.

Bundesbank raises voice

Continued from Page 1

would be resolved through higher taxes or higher inflation. "We can take it for granted that no one wants the latter."

In this week's speech he also attacked politicians who had the nerve to exert "moral pressure" on the Bundesbank to cut interest rates while it was still battling to win the war against German inflation.

He said that if politicians wanted to help stabilise markets and reduce money market speculators' room for manoeuvre, they would be better advised to stop regarding exchange rates as tokens of political prestige and give their central banks independence. The man who has raised several grave concerns claimed the sort of pressure exerted on the Bundesbank of late actually increased doubts about Emu.

But he left his audience with no doubt about his stance on interest rates. He said it would be a mistake for the Bundesbank to try to iron out domestic economic difficulties with a lax monetary policy, even taking into account the "short-term problems" of partner countries. That would be a disservice to European monetary integration, he declared, dropping the community's most gnawed-at bone of contention in Mr Kohl's backyard.


The French port of Brest feels the full force of storms which battered north-west Europe yesterday

French franc struggles in spite of intervention

Continued from Page 1

currencies in the system, said it spent BFr70bn (£1.408bn) from its reserves in the week to November 30 in supporting the weaker currencies in the ERM.

● In an effort to reduce the strains, Mr Henning Christophersen, the European Community economy commissioner, ruled out further realignments and said selling of the krone, the French franc and the Irish punt was "irrational".

● In a more hopeful sign for the punt, which has been under pressure recently, the Irish currency strengthened against other major currencies, in spite of yesterday's move by the Irish central bank to cut its overnight interest rate from 100 per cent to 30 per cent.

The upheaval in the currency markets is certain to be high on the agenda at the Bonn summit, which lasts until tomorrow. France and Germany will seek to co-ordinate their strategy for the forthcoming EC summit, in Edinburgh, with both deeply committed to ensuring the Community-wide ratification of the Maastricht treaty.

They want to find a solution which can accommodate Denmark's objections to the treaty, without having to renegotiate it.

Their talks are likely to be overshadowed by the battle over the French franc, and by their differing views over the Gatt negotiations.

Mr Kohl, and his agriculture minister, Mr Ignaz Kiechle, have made it clear that they can live with the deal on restraining EC farm exports worked out by the European Commission and the US administration. Mr Mitterrand remains passionately opposed.

Mr Kohl is not going to allow differences over Gatt to sour his close alliance with the French president, although he may expect some French response on that score in return for Germany's loyal support of the franc.

On the currency markets, if the franc continues to experience the same weight of selling over the next few days, economists in Paris expect the Bank of France to increase its five-to-10-day repurchase rate, currently 10 per cent, in an effort to defend the currency.

This is the rate at which the central bank does marginal short-term lending to the banking system.

World Weather

		°C	°F			°C	°F			°C	°F
				Boulogne	R	11	52	Frankfurt	F	12	54
				Brussels	R	10	50	Geneva	F	14	57
				Budapest	S	0	32	Gibraltar	F	19	66
Ajaccio	S	17	63	Buenos Aires	F	25	77	Glasgow	R	9	48
Algiers	S	21	70	Cairo	F	19	66	Helsinki	R	5	41
Amsterdam	R	10	50	Cape Town	S	22	72	Hong Kong	F	23	73
Athens	F	11	52	Caracas	F	29	84	Innsbruck	S	9	48
Bahrain	S	25	77	Casablanca †	F	19	66	Inverness	R	6	43
Bangkok	F	28	82	Chicago †	Sn	1	34	Islamabad	F	19	66
Barcelona	F	15	59	Cologne	C	13	55	Istanbul	F	6	43
Beijing	S	4	39	Copenhagen	F	6	43	Jakarta	R	31	88
Beirut	R	13	55	Corfu	S	14	57	Johannesburg	S	29	84
Belfast	R	8	46	Dallas †	S	4	39	Lisbon	F	17	63
Belgrade	S	7	45	Dublin	R	9	48	London	R	13	55
Berlin	S	7	45	Dubrovnik		–	–	Los Angeles †	C	11	52
Biarritz	S	19	66	Edinburgh	R	9	48	Luxembourg	R	10	50
Bombay	S	31	88	Faro	C	17	63	Madeira	C	20	68
Bordeaux	C	15	59	Florence	F	14	57	Madrid	C	12	54

		°C	°F			°C	°F			°C	°F
Majorca	F	[illegible]	[illegible]	Oporto	R	16	[illegible]	Tenerife	S	23	73
Malaga	F	20	68	Oslo	R	8	46	Tokyo	C	15	59
Malta	F	[illegible]	[illegible]	Paris	R	11	52	Toronto †	Sn	2	36
Manila	[illegible]	[illegible]	[illegible]	Prague	C	3	37	Tunis	S	19	66
Melbourne	C	[illegible]	[illegible]	Reykjavik	S	-1	30	Valencia	S	17	63
Mexico City	C	[illegible]	[illegible]	Rhodes	S	14	57	Venice	C	10	50
Miami †	S	[illegible]	[illegible]	Rio de Janeiro	R	25	77	Vienna	C	1	34
Milan	Dr	[illegible]	[illegible]	Rome	F	18	64	Warsaw	S	4	39
Montreal †	C	[illegible]	[illegible]	Salzburg	S	10	50	Washington †	C	0	32
Moscow	C	[illegible]	[illegible]	S Francisco †	C	10	50	Zurich	Fg	5	41
Munich	S	[illegible]	[illegible]	Seoul	S	10	50				
Nairobi				Singapore	F	29	84				
Naples	[illegible]	[illegible]	[illegible]	Stockholm	F	8	46				
Nassau	C	[illegible]	[illegible]	Strasbourg	F	11	52				
New Delhi	S	[illegible]	[illegible]	Sydney	S	21	70				
New York †	[illegible]	[illegible]	[illegible]	Taipei	C	21	70				
Nice	R	[illegible]	[illegible]	Tangier	F	18	64				
Nicosia	C	[illegible]	[illegible]	Tel Aviv	R	13	55				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 3 1992

INSIDE

Branson shelves Virgin sell-off

Mr Richard Branson has shelved plans to sell a 10 to 25 per cent stake in Virgin Atlantic Airways. He says the future of his carrier and other smaller independent airlines is threatened by European Commission proposals on allocation of take-off and landing slots at congested EC airports. Page 20

EC move on bank protection

Depositors at banks could receive greater compensation in the event of a bank failure, if a European Community directive on deposit protection schemes is agreed. However, EC members are at loggerheads over the proposed directive. Page 19

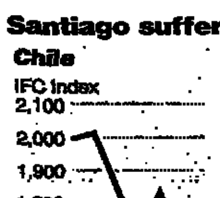
Scramble for bank shares

The Israeli government's effort to divest itself of its majority holdings in the country's four largest banks took a step forward this week. The placing of the state's 42.5 per cent stake in IDB Holding, the rich industrial investment arm of Israel Discount Bank, on the Tel Aviv Stock Exchange (Tase) on Sunday was 120 times oversubscribed. Page 17

Gilts fall after auction

UK government bonds fell a quarter point after the Bank of England's disappointing auction of government bonds. Demand was poor: the Bank reported a ratio of bids to the amount on offer of only 1.26 times, and the auction was dominated by domestic players as foreign investors continued to shy away from the gilt market. Page 19

Santiago suffers the blues



Santiago's stock exchange is suffering from a bout of year-end blues because of fears of an imminent rise in central bank interest rates to cool an overheated economy. The latest projections show the Chilean economy growing by more than 9 per cent in 1992. High yields on government paper have siphoned off funds from the *bolsa*. Back Page

Finnish bank strengthens base

Union Bank of Finland, the country's second-largest bank, yesterday said it would take a FM1.7bn ($328m) injection from the Finnish government to strengthen its capital base. Page 16

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				Skis Rossignol	735	+	26
Rises				Union Immob Fr	475	+	22.8
Heidelb Zem	835	+	15	**Falls**			
Lahmeyer	570	+	12.5	Accor Entrepr	385	–	18
Zanders Feinpap	215	+	10	Dollfus Mieg Cie	262	–	14
Falls				Radiotechn	261	–	14
Berliner Bank	243	–	10	**TOKYO (Yen)**			
Daimler-Benz	535.8	–	14.2	**Rises**			
Mercedes Hld	412	–	12	Kiriu Machine	520	+	40
NEW YORK ($)				Konami	2950	+	230
Rises				Meiwa Trading	390	+	40
Presley Co	4	+	⅝	Takara	1330	+	130
Standard Fed Bk	23⅞	+	1⅛	Zuken	2540	+	240
Falls				**Falls**			
Caterpillar	54¾	–	1⅞	Hisamitsu Pharm	674	–	55
Cons Stores	17	–	⅞				
LA Gear	10⅝	–	1¼				
LaserMaster	2⅝	–	⅞				
PARIS (FFr)							
Rises							
Seb SA	343.9	+	14.9				

New York prices at 12.30pm.

LONDON (Pence)				Tiphook	305	+	30
Rises				Vickers	89	+	5
Acatos&Hutcheson	140	+	15	Victaulic	296	+	17
Asprey	263	+	15	**Falls**			
Booker	370	+	26	AB Electronic	50	–	6
Boosey Hawkes	910	+	25	Erskine House	68	–	7
Caplta	407	+	21	Euro Disney	898	–	27
Essex Furniture	65	+	5	HSBC	480	–	22
Granada	334	+	25	Kwik-Fit	94	–	8
Lucas Inds	134	+	10	PorterChadbrn	20	–	6
Prudfoot (A)	92	+	8	Royal Insce	265	–	12
Salvesen (C)	346	+	15	StandardChtd	528	–	15
Scholes	119	+	9				
Smith New Ct	105	+	8				
Tarmac	96	+	6				

BBL chief executive quits in bid backlash

By Andrew Hill in Brussels

THE CHIEF executive of Banque Bruxelles Lambert (BBL), one of Belgium's big three banks, resigned yesterday following the failure of Internationale Nederlanden Groep (ING), the Dutch financial services group, to bid for BBL.

Mr Theo Peeters, together with most of the BBL management, was a strong supporter of the ING proposals, but the Dutch group abandoned its plans last month after disagreeing with the Belgian bank over the price to be offered. ING, which had conducted a full audit of BBL's books, wanted to pursue a co-ordinated "bancassurance" strategy with the bank.

"Let's just say that Mr Peeters personified a certain policy," said a bank spokesman yesterday. "As this policy seems to have failed, he preferred to withdraw."

The group's chairman, Mr Jacques Thierry – another supporter of the ING link-up – confirmed that he would step down in April having reached the statutory retirement age.

The announcements are an indication that Groupe Bruxelles Lambert, the Belgian holding company and largest shareholder in BBL, is reasserting its hold over the bank. GBL, which is headed by Mr Albert Frère, had lobbied hard against an ING bid, suggesting that it could come up with an alternative solution. One possibility which Mr Frère was thought to favour was a link-up with Crédit Communal, the banking network owned by Belgian municipalities.

But BBL said yesterday that there were no further negotiations in progress, and stressed that the reshuffled board of directors would concentrate during 1993 on improving the bank's profitability.

The announcement is unlikely to end speculation about the bank's future, as ING continues to hold a 10 per cent stake in BBL. A BBL statement welcomed GBL and other shareholders' promise to "guarantee the stability of the shareholder structure".

"Numerous studies of the bank made recently by external consultants have not revealed any new problems and have highlighted the existence of several areas of excellence," the statement added.

The group is to re-examine its foreign operations, although BBL said it would not be withdrawing altogether from overseas activities.

Japanese analysts plead for status

By Robert Thomson in Tokyo

JAPAN'S much-mocked securities analysts have pleaded to be taken as seriously as their counterparts in Europe and the US, and asked that employers no longer force them to change unwelcome "sell" recommendations.

The plea from the Conference for Securities Associations follows a survey of 2,024 Japanese analysts at brokerages and other financial institutions, 79.8 per cent of whom felt that they have a lower status in society than European and US analysts have in their home countries.

"We want to establish an environment in which analysts are more highly respected," the securities body said, suggesting that the speculative excess of the 1980s has caused investors to doubt brokers' integrity. "The independence of analysts should be clearly recognised."

Japanese analysts' reputations have suffered because of the reluctance to issue a "sell" recommendation. Analysts are also under pressure not to deviate from a company's forecast profits, the securities body said, as "they would be criticised by officials in the underwriting department".

The survey, conducted by the Security Analysts' Association of Japan, found that analysts are often torn between pride in their profession and loyalty to their company. About 63 per cent of surveyed analysts "compromise" with their employer in preparing a recommendation.

A mere 14 per cent said they have "no friction" within their institution in preparing reports, while only 21.3 per cent said they have "no friction" with outside companies, presumably those about which reports are being prepared.

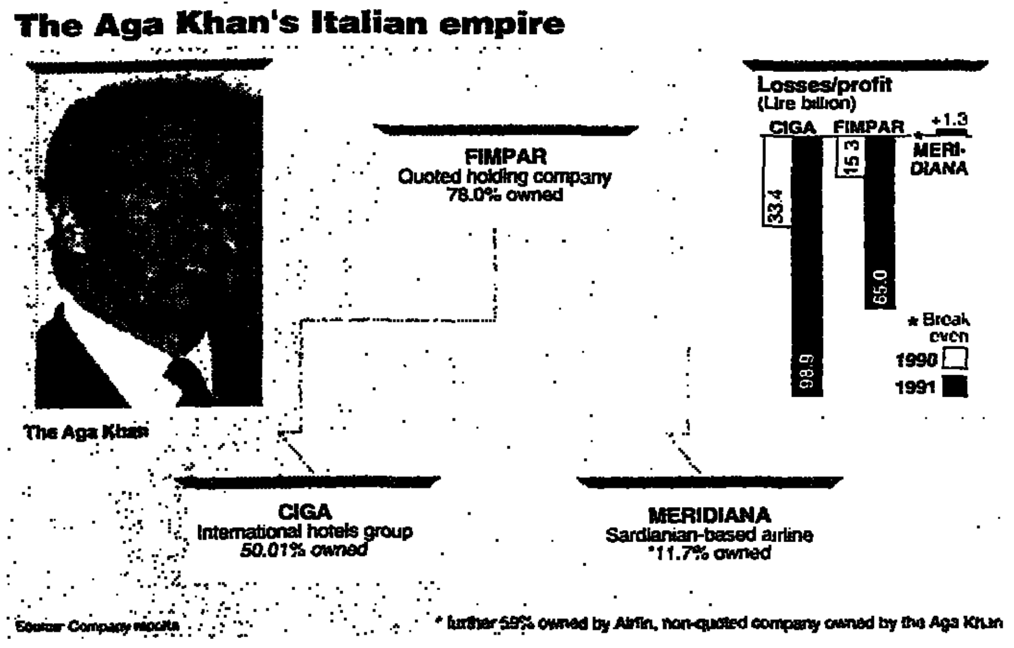
Mr Yoshikatsu Sato, director of the Security Analysts' Association, said the credibility of the profession is harmed by the common Japanese corporate practice of staff rotation. "In the future, we hope that the Japanese system will become more like that in Europe or the US. We would like analysts to be regarded as professionals, and it does not help if they are transferred after a short period," he said.

Asked what would improve analysts' status, 71 per cent chose "a high level of specialisation and sophisticated techniques"; 55 per cent selected "fairness and objectivity"; and 46 per cent ticked "independence from company and client".

Haig Simonian on reasons for a rescue plan at the Aga Khan's luxury hotels group

Ciga acts to cut its prestigious amount of debt

The Aga Khan's Italian empire



* further 59% owned by Airfin, non-quoted company owned by the Aga Khan

For its critics, the problems at Ciga, the luxury hotels groups controlled by the Aga Khan, are the legacy of botched decisions based on over-confidence. For the company, the difficulties reflect unusually bad luck which have upset a rational, if ambitious, growth plan.

Whichever is true, Ciga, one of the world's leading prestige hotels groups with 36 hotels in six countries, is facing the toughest week in its history.

In a matter of days, it should sign an agreement with an unspecified Italian investor to sell a "substantial" slice of the subsidiary owning its properties, once valued at L2,500bn ($2bn).

Details have not yet been revealed. But the company is confident the deal will cut debts, now almost L1,000bn including rolled-over interest and a convertible bond issue, to between L350bn and L400bn.

That will reduce borrowings to below the level of sales, expected to be around L460bn this year and L500bn in 1993. The breathing space should give Ciga time to consider further steps to reduce borrowing.

Even assuming the deal goes through, Ciga's latest tribulations have severely damaged its image and devastated its share price, which yesterday fell 10 per cent to L1,035 – a far cry from the 1991-92 high of L3,413. Moreover, Ciga's problems, just one of a number of corporate headaches for the Aga Khan, have cast a shadow on his overall business acumen.

Losses at Fimpar, the quoted holding company controlled by the Aga Khan, rose to L65bn last year from L15.3bn in 1990. Meridiana, the Sardinia-based airline which he also owns, managed to make a modest L1.3bn profit in 1991 after breaking even the previous year.

But aborted plans to set up a rival airline to Iberia in Spain will result in a loss this year. How did things go wrong?

Since its foundation by the aristocratic Volpi family in Venice in 1906, Ciga has been a byword for luxury accommodation in Italy, with a string of five-star "Palaces", "Grands" and "Excelsiors" in cities such as Rome, Milan, Venice and Florence.

The company, floated in 1922, came under the Aga Khan's wing in 1985, when he bought the non-quoted financial holding company created by fund manager Mr Oratzio Bagnasco to invest in service sector companies. Ciga was its first – and last – big investment. Fimpar, the Aga Khan's quoted holding company, was floated in 1987.

Ciga's latest problems arise from a mixture of buying expensive new hotels, spending lavishly to modernise many of the remainder, shortly before demand for five-star accommodation started to soften.

Matters have been exacerbated by an aborted rights issue, in turn triggering a legal fight between the Aga Khan and a leading Italian merchant bank, and the collapse of a property deal in Sardinia.

The troubles began in late 1989, when Sige, the Milan-based merchant bank owned by the IMI financial services group, pulled out of a deal to lead a rights issue for Fimpar, on the grounds of deteriorating market conditions.

Fimpar's capital increase would have been the first step to a rights issue by Ciga, which would have been wholly subscribed by the parent company. The deal, which would probably have raised around L200bn, was designed to help finance the hotels group's continuing expansion.

Since being taken over by the Aga Khan, Ciga had pursued a three-fold strategy of internationalising its still largely domestic chain, focusing on the luxury end of the market and diversifying into property.

Internationalisation involved buying top-name hotels such as the Palace in Madrid and part of the Imperial in Vienna, as well as others in Paris and Athens, to reduce its dependence on Italy.

Concentration took place by selling some smaller properties in provincial Italian cities, which did not fit the company's five-star bill. At the same time, a huge investment programme, costing around L450bn between 1986 and 1991, swung into place to raise the standards of some of the group's famous, but sometimes shabby, properties.

Much went on Milan. Benefiting from a special zoning amendment linked to the 1990 soccer world cup, which allowed hoteliers to expand their buildings, the company overhauled and extended three of its four properties. Costing around L120bn for the two hotels Ciga owned, rather than just managed, the multi-year project dug into cash flow by cutting room availability while fixed costs remained virtually unchanged. In all, the Milanese works cost L25bn-L30bn in lost revenues.

Other surprises pushed Ciga further off course. Diversification, the third leg of its strategy, went sour after permission to develop a huge tract of land in Sardinia was not granted.

The failure to win approval was a double embarrassment. Financially, it scuppered hopes to inject fresh money into the group by bringing outside investors into the new Sardinian scheme.

In terms of image, it embarrassed both Ciga and the Aga Khan, the driving force behind the development since 1962 of Sardinia's rocky north-east coast into the "Costa Smeralda" – one of Europe's most prestigious – and expensive holiday playgrounds.

Then came the Gulf war, leading to an immediate drop in business and leisure travel. Though the market has recovered from the depressed days of early 1991, Ciga remains hit by the economic recession, making businessmen think twice before spending $300 or more a night for a room. Though now painstakingly modernised and arguably much better value for money than in the past, Ciga's hotels are among the most expensive in the world.

To cap it all, Ciga's debts, partly in foreign currencies, have been swollen in lira terms by the September devaluation of the Italian currency. The company estimates the lira value of its borrowings has grown by L50bn as a result. In the circumstances, the rescue plan to cut borrowings will not come a moment too soon.

UAP to pump FFr1.4bn into Banque Worms to cover losses

By William Dawkins in Paris

UNION des Assurances de Paris (UAP), France's largest insurance group, yesterday provided the latest sign of the severity of the collapse of the Parisian property market when it announced a FFr1.4bn ($259m) recapitalisation for its banking unit, Banque Worms.

UAP warned at the end of October that it would have to pump more than FFr1bn into the loss-making Banque Worms, but yesterday's package was bigger than most analysts had expected.

Some of the recapitalisation, to take place by the end of the year, is to cover losses on the bank's large Parisian property portfolio, for which it has had to make heavy provisions and will make more to come. The bank lost FFr179m net last year after a FFr310m provision against property risks, rising to a FFr350m net loss in the first half of this year after FFr150m of property provisions.

Mr Didier Pfeiffer, UAP's managing director, warned that property provisions in the current half could rise, though analysts expect overall provisions in 1992 to be lower than last year.

The fresh capital would bring the bank out of difficulty, said Mr Pfeiffer.

Part of the cash would be used to set up three property and financial intermediation companies, jointly owned by Banque Worms and UAP, to encourage "better synergy" between the insurance group and the bank, he said.

● The French cabinet yesterday named Mr Philippe Lagayette, 49, deputy governor of the Bank of France, as the new chairman of the Caisse des Dépôts, the state-controlled financial institution.

The post is one of the most important in French finance because the Caisse is France's largest institutional investor. It manages the state savings system, has influential holdings in many top industrial companies and has as a result been an important player in several of France's most important takeovers.

Mr Lagayette replaces Mr Robert Lion, who resigned last month on the grounds that he had always planned to leave after 10 years in the job.

GEC cautious over dividend

By Tony Jackson in London

THE General Electric Company disappointed City optimists with a cautious 5 per cent rise in its interim dividend yesterday, in spite of a near doubling of its cash mountain to more than £1bn ($1.6bn).

The company also announced that Sir David Scholey, chairman of Warburg, is to join the board. Sir David had been widely tipped as the next governor of the Bank of England. This would appear to be ruled out by the GEC appointment, as the governor is not allowed to hold outside posts.

GEC hailed sterling's recent devaluation as of major importance to its export business. It also said the translation of its overseas earnings at sterling's lower rate would be worth £40m pre-tax over a 12-month period.

The company, which has not always been a supporter of government policy, also welcomed the reduction in interest rates and government plans for private financing of public projects. These should provide impetus for growth and create new opportunities, it said.

GEC's pre-tax profits rose 3 per cent to £356m, on sales 5 per cent lower. Earnings per share were up 4 per cent.

In divisional terms, the strongest performance came in power systems, where profits were 18 per cent ahead. Its weighing machine business, on the other hand, saw profits almost halved because of weak demand in North America and Australia.

Net cash within GEC itself rose to £1.07bn from £602m, while its share of cash held in joint ventures rose from £425m to £733m. This was partly because recessionary conditions and lower sales had allowed it to reduce working capital. However, the timing of tax and dividend payments meant there might be a small outflow of cash in the second half.

GEC's UK business in power generating equipment would not be affected by the debate over UK energy policy, as the company supplies equipment for power stations of all types including nuclear. Demand for its products was affected only by overall demand for electricity, it said.

The company said it felt more confident than in recent months about the future of the European Fighter Aircraft, to which it is a leading supplier.

It also confirmed that it was interested in principle in combining parts of the defence business of British Aerospace with its own, though there was no suggestion that talks were taking place.

Lex, Page 14; Details, Page 21; People, Page 10

UK brewing group's 16% rise disappoints market

By Philip Rawstorne in London

BASS, the UK brewing, hotels and leisure group, fell short of market expectations yesterday despite a 16.5 per cent rise in full-year pre-tax profits to £501m ($751.5m).

Shares fell 15p to close at 585p as Mr Ian Prosser, chairman, said he expected no improvement in trading conditions before late next summer. "There are signs that the American economy may be moving in the right direction but... we have seen false signals in this respect in the past two years." In the UK, we do not see any such signs."

Market sentiment was further depressed by evidence of damage inflicted by the UK recession and the government-enforced disposal of pubs.

A property revaluation has led to a write-down of £496m, 13 per cent of total property value and about half of the surplus recorded in the 1989 revaluation. The sale of 1,213 pubs during the year contributed to a 24.5 per cent decline in pub operating profits, but Bass recouped the lost beer volumes with gains in the free pub trade and take-home market.

Earnings per share for the year to September 30 grew 8.3 per cent to 39.6p; a final dividend of 13.65p raises the total payment to 18.9p, an increase of 6.2 per cent. The accounts include exceptional charges of £75m for rationalisation and reorganisation costs in the brewing and pub divisions; and an extraordinary credit of £91m mainly from surpluses on pub disposals.

Group operating profit fell 1.5 per cent to £612.1m from £622.7m, on turnover reduced from £4.38bn to £4.31bn. Profit contribution from brewing operations rose 13.5 per cent to £210m on turnover of £1.59bn, 3.2 per cent ahead.

Holiday Inn hotels achieved a 12.4 per cent increase in operating profits to £116m.

Lex, Page 14; Details, Page 21

Granada earnings climb 129%

By Raymond Snoddy and John Thornhill in London

GRANADA, the UK leisure, television and computer services group, plans to cut 800 more jobs in the next year including around 200 at Granada Television. The cuts come as the group yesterday announced a 129 per cent increase in pre-tax profits to £130m ($199m) for the year to the end of September.

The job cuts at Granada Television are expected to be announced next week. Yesterday, Mr Gerry Robinson, chief executive, said Granada Television had been "under-managed" in the past.

A further 600 jobs are to go at Granada Rental.

Granada reported higher-than-expected profits and its shares closed up 25p on the day at 334p. In the first full year under the management of Mr Robinson every Granada division improved its position.

Rental increased operating profit by 9 per cent to £98m. Television had a 50 per cent increase to £33m although there was a one-off £6m saving in exchequer levy. Leisure, mainly motorway services, had a 16 per cent increase in operating profit to £27m. Computer services moved from a £12m loss to a £9m profit.

Mr Alex Bernstein, chairman, said the performance of British Sky Broadcasting, in which Granada has a significant stake, was "the icing on the cake". BSkyB would make an operating profit of £50m-£60m this year and would make its first pre-tax profit in the year beginning June 1993.

Granada's fully diluted earnings per share was 19p, a rise of 92 per cent, and the net dividend rose 10 per cent to 7.7p.

Lex, Page 14

Institutions turn against Sugar

By Paul Taylor in London

TWO large UK institutional investors said yesterday that they would vote against Mr Alan Sugar's controversial 30p-a-share buy-back bid for the 65 per cent of Amstrad, the UK consumer electronics group, he does not already own.

Prudential said it would vote its 5m Amstrad shares, equivalent to a 0.9 per cent stake, against the bid, as did Postel, the UK's largest pension fund, which holds 10.92m Amstrad shares, equivalent to a 1.88 per cent stake.

Although the stakes are small, the institutions' decision to oppose the bid represents a setback for Mr Sugar, Amstrad's chairman.

Opponents of Mr Sugar's £113m ($170m) plan to take the consumer electronics group private again, need to muster a total of 94.4m shares, or 16.25 per cent of Amstrad's paid up capital, to block the deal.

Although many institutional fund managers have said they are unhappy with the terms of the offer, Prudential and Postel are the first to announce they will try to block the bid.

Mr Andrew Threadgold, Postel's chief executive, said yesterday that the pension fund would be opposing the 30p-a-share bid because "we are opposed to management buy-outs of public companies by insiders," and was concerned to reinforce this principle.

The action of the two institutions yesterday is also likely to strengthen opposition among Amstrad's 31,000 individual shareholders, many of whom have already expressed concern about the bid.

One, Mr Edward Northcote who owns 1,000 Amstrad shares, will mount a legal challenge to the planned buy-out in the High Court this morning.

Zurich banking executive to resign

By Ian Rodger in Zurich and Alan Friedman in New York

MR ALFRED HARTMANN, deputy chairman of the troubled Rothschild Bank in Zurich, is resigning at the end of the year.

His resignation follows revelations that the bank made loans of SFr220m ($155m) which broke Swiss banking law. He has also resigned from the boards of five other Rothschild companies in Switzerland.

No reason for the resignation was given.

Mr Hartmann, a Zurich banker who began his career with Union Bank of Switzerland, has been involved with other troubled banks.

He was a director of the defunct Bank of Credit and Commerce International (BCCI) and chairman of its Swiss associate, Banque de Commerce et Placements (BCP), which was named in the first US indictment in 1988 of BCCI's money laundering activities in Florida.

He was widely criticised last year for his failure to spot trouble early on at BCCI.

Mr Hartmann was also mentioned in the recent 800-page report on BCCI issued by Senator John Kerry of Massachusetts. The Kerry report urged further investigation by the US of the nature of Mr Hartmann's financial dealings with Mr Charles Keating, the convicted former savings and loan tycoon.

Mr Hartmann joined Rothschild Bank in 1983 as its general manager. Two years later, the bank was censured by the Swiss Banking Commission for making a fictitious loan to the Marc Rich trading organisation.

He became a director and deputy chairman in 1989. The following year, the bank was retained by Philip Morris of the US to advise it on its bid for the Swiss confectionery group, Jacob Suchard. It was later investigated for buying Suchard shares for its own account in advance of the bid's announcement.

Seagram hit by marketing costs

By Robert Gibbens in Montreal

THE RECESSION continued to dampen Seagram's wine and spirits business in the third quarter, while the Tropicana fruit juice unit performed strongly and benefited from lower overheads.

Third-quarter net profit was US$178m, or 47 cents a share, down 9 per cent from $193m, or 51 cents a share, a year earlier.

Mr Edgar Bronfman Jr, president, said in a statement that the Canadian group's flat performance in the third quarter was due mainly to the recession's impact on several key global markets, but also to higher advertising outlays to support its most important brands. Seagram spends around $500m a year on advertising worldwide.

He said: "But we expect our overall operating income for the full year ending January 31 will exceed the $760m reported for fiscal 1992." Sales from the worldwide drinks business dipped 3.7 per cent to $1.45bn following the sale of several spirits brands in the US in the final quarter of fiscal 1991.

In the third quarter, sales from continuing operations were steady. Operating income was $198m, against $206m.

Results included $73m in dividends from Du Pont of the US, against $69m, and $41m equity in unremitted Du Pont earnings, against $51m.

Net income for the nine months to October 31 was $497m, or $1.32 a share, down 6.5 per cent from $530m, or $1.40 a share, a year earlier. Sales were $4.9bn against $4.28bn. Results included Du Pont dividends of $214m, compared with $207m, and unremitted earnings of $121m, against $185m.

Seagram is one of the world's top four drinks groups, selling in 150 countries and with subsidiaries and affiliates in 34 countries. Its main expansion thrust is in Asia and Europe because of the long decline in the North American spirits market.

Seagram is known to be searching for another premium brand acquisition, while senior management at Tropicana has recently been shaken up once again.

UBF takes FM1.7bn injection

By Christopher Brown-Humes in Stockholm

UNION BANK of Finland, the country's second-largest bank, yesterday said it would take a FM1.7bn ($328m) injection from the Finnish government to strengthen its capital base.

The move makes it the last of the leading Finnish banks to take advantage of a FM8bn preference capital fund which the government set up earlier this year to help support the country's ailing financial system. The state has also established a FM20bn guarantee fund.

UBF said it decided to take the injection because of the continuing difficulties being faced by the Finnish banking sector, which has been battered by heavy credit losses and the deterioration in the country's economy. It also noted that the option to apply to the fund expired at the year-end.

The bank said the provision would strengthen its capital ratio by about 1 per cent from 9.5 per cent and would increase its lending capacity by about FM20bn.

The injection takes the form of a preferred capital certificate and carries a coupon of 0.5 per cent a year over one-year Finnish government Treasury bills until the end of 1997.

If heavy losses prevent UBF from repaying the amount, conversion rights will allow the state to take a holding of up to 30.4 per cent in the group.

Unitas, UBF's holding company, disclosed a FM1.5bn loss for the first eight months of 1992, and predicted a FM3bn loss for the whole year.

Like other Finnish banks, it has been rationalising heavily. Staff numbers will have been cut to 8,500 by the year-end, 2,000 less than in 1987.

Kansallis-Osake-Pankki, UBF's main commercial competitor, said in August that it would also take a FM1.7bn injection from the government.

Viag sees bleak outlook for 1993

By Judy Dempsey in Bonn

VIAG, the energy-based German conglomerate, expects little improvement in profit and sales growth until the end of next year.

Net profits fell in the first nine months of the current financial year by 9 per cent to DM292m ($185m), while turnover eased marginally to DM17.75bn, compared with the same period in 1991.

Mr Alfred Pfeiffer, Viag's chairman, said the results were affected by the slowdown in growth in the domestic market, as well as currency fluctuations on the international markets.

Two sectors of the group appear particularly vulnerable, with turnover rising less than 1 per cent for aluminium, and falling by 7 per cent for fire prevention equipment.

At the same time, surplus stocks, increasingly common across German industry, are also hitting Viag's packaging arm and primary aluminium sectors. Gerresheimer Glas, under which Viag's glass manufacturing sector is grouped, also showed a sharp fall in turnover from DM142m to DM67m. However, the group's interim results have been partly cushioned by the chemical sector, where turnover rose by 7 per cent.

Total spending on new investments also fell from DM2.03bn to DM509m, although this was expected following a rapid expansion of Viag throughout 1991.

● Sales at Preussag, the German industrial group, fell 3.9 per cent to DM24.5bn ($15.5bn) for the fiscal year which ended on September 30, however net profits were slightly above last year's DM425m.

Mr Ernst Pieper, the group's chairman, said last year's dividend of DM10 per share would be unchanged. He added that order inflows continued to be stable at DM28.1bn, and the order backlog had risen by 5.3 per cent to DM11.8bn.

However, Preussag Stahl, the group's steel subsidiary, yesterday announced that it was planning to introduce a shorter working week, which will last for three months, starting in January. Preussag Stahl profits fell 51 per cent, from DM91m in 1991 to DM45m this year.

Henkel aims to hold payout as profits fall

By Christopher Parkes in Frankfurt

HENKEL, the German chemicals, cosmetics and personal products group, expects profits to fall this year, but will maintain its dividend.

Forecasting a moderate fall in pre-tax and net earnings, Mr Hans-Dietrich Winkhaus, chairman, said sales after nine months had risen 11 per cent to about DM11bn ($7bn), due mainly to the effects of acquisitions, and profits were still level with 1991 rates.

However, sales growth had slowed in the final quarter and the company expected turnover for the year to grow only 8 per cent to around DM14bn.

Germany's leading chemicals groups have been hit by a recent sharp fall in both volume sales and prices. The effects have been compounded by the appreciation of the D-Mark.

Henkel is likely to suffer less than others, however, because of its wide interests in consumer products such as detergents and toothpaste which are less susceptible to cyclical swings.

Even so, the company plans to reduce its workforce, increased by acquisitions, by 2,000 over the next two years. Investment next year will total DM730m, down from this year's DM800m.

Henkel's dividends last year were DM10 for preference stock and DM7 for preference shares.

LEGAL NOTICES

EXCERPT

By judgement dated 27 November 1992, the District Court of and in Luxembourg, sitting in commercial matters, handed down in public hearing, has declared bankrupt INTERCONTINENTAL SHIPPING AND TRADINGS SERVICES S.A. (I.S.T.S.E.), with registered office in Luxembourg, 42, Boulevard Grande-Duchesse Charlotte.

The same judgement has provisionally fixed the cessation of payments on 27 May 1992. It has appointed Mrs Maryse WELTER, Vice-president of the District Court of Luxembourg, as supervisory judge and Mrs Yvette HAMILIUS and Mr Gaston STEIN, both attorney at law residing in Luxembourg, as receivers.

The proof of claims of the creditors must be filed with the District Court of Luxembourg before 11 December 1992.

The verification of the proofs of claims shall take place on 18 December 1992 at 3:00pm and the disputes relating to this verification shall be heard on 5 January 1993 at 3:00pm in the District Court of and in Luxembourg.

This announcement has been ordered by the above judgment and is effected on behalf of the receivers. For true excerpt. The receivers.

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Paying and Conversion Agents

INTERNATIONAL COMPANIES AND FINANCE

FMC and Harsco in $1.2bn military vehicle merger

By Martin Dickson in New York

FMC, the diversified chemicals group, and Harsco, the equipment manufacturing business, plan to combine their military vehicle businesses in the latest example of a merger wave in the US defence industry.

The two said the combined business would have estimated sales in 1993 of about $1.2bn and would be owned 60 per cent by FMC and 40 per cent by Harsco.

FMC, with interests ranging from chemicals to machinery and equipment, will put into the partnership its Defence Systems group, which employs more than 6,000 people. Its best-known product is the Bradley Fighting Vehicle, a tracked vehicle armed with automatic cannon which saw extensive action with US troops in the Gulf war.

Harsco will put into the group its BMY-Combat Systems division, which employs 3,000 people and makes tracked vehicles for artillery and combat support functions.

The deal is part of a trend for US defence companies to merge their activities in a bid for greater efficiencies as the US defence budget shrinks following the end of the Cold War.

Mr Malcolm Gambill, chairman of Harsco, said the two businesses were a natural fit and would be a "powerhouse in tracked vehicles". The deal would lead to some consolidation, with the removal of unneeded higher cost capacity.

The new company will include FMC's naval systems division and its steel products division, which makes military track.

However, Harsco will retain its BMY-Wheeled Vehicles division, which makes five-ton army trucks and has been suffering a dearth of orders.

Caterpillar reverses forecast to 'modest' loss

By Laurie Morse in Chicago

CATERPILLAR, one of North America's largest heavy equipment exporters, yesterday said it expected to take a loss in the fourth quarter.

The company had earlier told shareholders it expected a modest profit in the quarter, excluding the gain from the sale of its lift truck joint venture and the impact of adopting new accounting standards.

Caterpillar reversed its profit projection after recording weak sales in Europe and higher-than-expected losses from its Brazilian operations.

The company said it was now projecting a "modest" loss if the $50m to $65m gain from the truck operation was included, and the impact of the new accounting standards excluded.

Mr Thomas Burns, securities analyst for County NatWest USA, said the projection translated into a loss of about 60 cents a share from operations in the fourth quarter, or a deficit of about $2.20 a share for the year.

The group said it would have to take additional write-offs in the quarter for consolidating its two Brazilian plants.

Higher forecasts for losses from foreign exchange translations would also hurt fourth-quarter results, the company said.

Caterpillar said its outlook for 1993 continued to depend on the strength of economic recoveries in North America and Europe.

The company also said that some US customers might be deferring purchases originally intended for 1992 until 1993 because they were waiting for details of a new investment tax credit programme

Caterpillar shares fell $2¼ to $54¼ in early trading following the company's forecast.

Tel Aviv urged to ride the raging bull

Hugh Carnegy on the Israeli government's attempt to divest itself of its bank stakes

ON the face of it, the Israeli government's long, drawn-out effort to divest itself of its majority holdings in the country's four largest banks took an important step forward this week.

The placing of the state's 42.5 per cent stake in IDB Holding, the rich industrial investment arm of Israel Discount Bank, on the Tel Aviv stock exchange (Tase) on Sunday was no less than 120 times oversubscribed, despite being the biggest issue the market had ever undertaken.

If all the options involved are taken up, it will yield the government more than $350m.

Officials at the Tase, well aware that a surging bull market this year is unlikely to carry on indefinitely, are urging the government to speed up privatising the banks and the state's big industrial holdings while demand remains strong.

Mr Gil Leidner, managing director of MI Holdings, the government agency charged with selling off the state's stake in the banks, agreed the success of the IDB issue underlined the importance of moving ahead quickly with other bank share flotations.

The government is committed to privatisation and says it is prepared to sell off big industrial companies such as Bezeq, the communications monopoly.

But the government's complex involvement in the banking system remains fraught with difficulties and a swift resolution still seems unlikely.

The IDB Holding issue was probably the most straightforward in the bank sale process. The company had been separated from Israel Discount Bank and majority control had already been sold back to the original owners, the Recanati family of Tel Aviv.

It has proved much more difficult for the government to decide what to do about Israel Discount Bank itself and its two bigger rivals, Bank Hapoalim and Bank Leumi.

Even the disposal of a controlling stake in Bank Mizrahi, the fourth-ranking bank, has apparently run into difficulties over the winning bidder's ability to gain approval from the banking authorities.

The problem dates back to 1983 when the government was forced to acquire majority holdings in the four banks – at a cost of $7bn – after an elaborate system run by the banks of ramping up their own shares collapsed.

The government has never run the banks because a preferential share system left control and management in the hands of the original owners. However, under agreements reached with each of the controlling interests, all shares will have equal voting value after the state's holdings are sold off.

The government has been grappling with the sale for at least five years without managing to dispose of one of the banks. Now a deadline is looming, adding pressure on it to deliver.

Under the terms of the 1983 share buy-out, the banks will, in effect, fall under direct state control from October 1993 unless they have been disposed of by then.

MI Holdings did reach agreement with Mr Gad Ze'evi, an Israeli businessman, in September to sell him a 51 per cent share of Bank Mizrahi (previously owned by the World Mizrahi religious organisation) for $185m. The balance of government-held shares in the bank would be sold on the Tase at a later date.

But, so far, the Bank of Israel has not given its approval. It is understood one of the problems is the reluctance of the US Federal Reserve to approve the sale of Mizrahi's US subsidiary. This week, Mizrahi's board threatened to resign if the sale did not go through by the end of January.

The Bank of Israel makes no secret of its unhappiness over the whole conduct of the bank sales. It originally wanted to break up Bank Hapoalim and Bank Leumi, which encompass a broad range of financial services from retail banking to fund management and insurance. Now it is pressing the government to form a committee, with Bank of Israel participation, to review the process.

> The government has the additional headache of how to avoid the full nationalisation of the banks just when it is trying to privatise them

It is not convinced that the MI Holdings strategy of selling a controlling stake by private tender, followed by a share flotation, is the best way to proceed.

In the case of Israel Discount Bank, for example, this is likely to lead to the bank reverting to the control of the Recanatis as they already hold 13 per cent of the bank through IDB Holding. Two of the Recanatis are on trial on criminal charges connected to the 1983 share scandal.

Even Mr Leidner of MI Holdings admits the method of tendering a controlling shareholding as the first step will not work for Bank Hapoalim and Bank Leumi, respectively controlled by the Histadrut trade unions and the Jewish Colonial Trust, because of their size.

Their combined assets of more than Shk150bn ($55.6bn) are more than twice the combined assets of Israeli Discount Bank and Mizrahi. Given creaky performance in recent years and lingering bad debt problems, the Bank of Israel reckons finding a group of investors able and willing to buy even a 10 per cent share would prove difficult.

Mr Leidner is planning a test flotation on the Tase of a 10 per cent share in both Bank Hapoalim and Bank Leumi within three months.

But it is becoming clear is that it is highly unlikely the process will be completed by the deadline of next October. This leaves the government with an additional headache of how to avoid the full nationalisation of the banks just when it is trying to privatise them.

US banks in talks over cheque clearing plan

By Alan Friedman in New York

THREE of the biggest commercial banks in the US are discussing the possibility of setting up a joint cheque processing venture.

The move would be aimed at reducing back-office and other administrative and operational costs at Chemical Banking, Bank of America and NationsBank.

There could also be broader cost savings since these banks are also large processors of cheques for other banks.

Although none of the banks wished to comment on the talks, first disclosed in the American Banker, a trade publication, executives with knowledge of the three-way talks said yesterday that technology for a unified cheque-processing network might come from International Business Machines.

Bankers said the computer company has also been involved in some of the exploratory talks.

The idea is to create a joint check clearing utility, which might include more than just the three banks already in talks.

Analysts have calculated that were such an entity launched it could reduced processing costs by up to 50 per cent at some banks.

Ms Diane Glossman, a banking analyst at Salomon Brothers in New York, said: "This is only one of a number of discussions among banks about setting up a cheque processing utility. We believe such a utility could save significant sums of money for the participants."

Acquisitions boost Bombardier

By Robert Gibbens in Montreal

BOMBARDIER, the Canadian aerospace and transit equipment group building shuttle wagons for the Channel tunnel between England and France, reported sharply higher revenues and earnings for the third quarter and at nine months, partly due to consolidation of two recent acquisitions.

All segments of the business contributed higher sales and operating profit, except transit equipment which was affected by problems with the C$650m (US$505m) tunnel contract.

The results now include De Havilland Canada, the commuter aircraft builder, and UTDC, an Ontario producer of mass transit equipment.

Third-quarter profit was C$28.3m, or 18 cents a share, against C$21.5m, or 15 cents, a year earlier on revenues of C$1.13bn, up from C$734m.

Nine-month profit was C$90.7m, or 58 cents, against C$70.9m, or 49 cents, on sales of C$3.04bn, compared with C$2.08bn.

Bombardier, which includes Canadair, Short Brothers of Belfast and Learjet of the US in its aerospace group, where the total order backlog is nearly C$5bn. Its Eurorail group in France and Belgium is handling the tunnel shuttle order.

Mr Laurent Beaudoin, chairman, said the transit equipment group was testing prototype shuttle wagons and deliveries should start in the first quarter of 1993.

"Because of design changes and other customer requirements, there has been a substantial increase in workload and costs," he said.

The contract with Transmanche Link, the Franco-British group carrying out the tunnel project, "is of a fixed-price nature," said Mr Beaudoin. "But it does provide a mechanism for remunerating Bombardier for additional work and for dealing with resulting schedule changes."

Brazilian chocolate maker tumbles to Cr40bn deficit

By Bill Hinchberger in Sao Paulo

LACTA, the market leader in Brazilian chocolates, suffered a loss of Cr40.4bn ($5.6m) for the first nine months of 1992. In 1991, the company earned $1.5m for the entire year.

The Brazilian chocolate market has fallen by 15 per cent this year, but Lacta said it managed to hold the company's decline to 12 per cent.

Lacta is one of Brazil's big three chocolate makers. It enjoyed a 43 per cent market share for January-July, compared with 28 per cent for Nestlé, the subsidiary of the Swiss multinational, and 24.6 per cent for Garoto, a Brazilian competitor.

A dispute has been simmering between the controlling group, headed by Brazilian businessman Mr Adhemar de Barros Filho, and minority partner Jacobs Suchard, the Swiss company owned by Philip Morris. Jacobs Suchard held 40 per cent of voting capital before it was purchased by Philip Morris. Earlier this year, a planned stock issue was held up by a judicial restraining order sought by Jacobs Suchard. Lacta is now authorised to make the issue, but no date has been set.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 03.12.92: Pool purchase price £/MWh	Final Prices for Trading on 05.11.92: Pool purchase price £/MWh	Final Prices for Trading on 05.11.92: Pool selling price £/MWh
0030	17.89	20.32	20.32
0100	22.82	26.45	29.04
0130	26.17	32.88	35.73
0200	28.17	32.88	35.89
0230	22.62	23.28	25.69
0300	22.52	23.28	25.70
0330	22.62	20.60	20.60
0400	18.27	20.32	20.32
0430	17.91	17.72	17.72
0500	17.91	18.12	18.12
0530	17.89	18.03	18.03
0600	17.89	18.03	18.03
0630	17.87	20.32	20.32
0700	18.73	23.65	26.13
0730	22.80	25.48	25.94
0800	23.00	26.77	26.22
0830	23.00	24.95	27.44
0900	23.01	24.95	27.42
0930	26.02	27.08	29.61
1000	26.02	27.08	29.60
1030	25.14	27.08	29.61
1100	23.29	27.08	29.61
1130	23.29	27.08	29.61
1200	27.65	27.08	29.61
1230	27.65	27.08	29.60
1300	27.65	26.14	28.64
1330	23.29	24.95	27.41
1400	23.29	21.25	21.25
1430	23.29	21.25	21.25
1500	23.29	21.25	21.25
1530	23.29	20.90	20.90
1600	27.59	24.96	27.41
1630	36.05	28.66	31.26
1700	44.75	31.59	34.57
1730	48.09	33.19	36.12
1800	41.25	33.04	35.95
1830	30.68	30.15	32.69
1900	28.01	28.69	31.13
1930	27.24	28.42	30.87
2000	24.55	27.08	29.60
2030	23.29	24.95	27.33
2100	23.29	24.50	26.89
2130	23.29	24.13	26.53
2200	23.29	23.65	26.05
2230	23.29	23.28	25.68
2300	18.33	23.28	25.70
2330	17.77	20.32	20.32
2400	18.33	18.87	18.87

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is [illegible]

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Nomura to shed 1,400 jobs as part of cost-cutting plan

By Robert Thomson in Tokyo

NOMURA Securities, Japan's largest broker, will shed 1,400 staff – 10 per cent of its workforce – over the next three years and close at least half of the 18 broking "boutiques" opened in Japanese department stores and shopping malls.

The broker has broadened a cost-cutting programme intended to increase profitability after a net loss of Y8.49bn ($68.3m) during the first half, when stock brokerage commissions fell by 39.6 per cent and the value of stocks underwritten was 77.4 per lower.

A continuing fall in retail investment has prompted Nomura to close or plan to close nine of its 18 "boutiques", which were opened to make investment more convenient for shoppers. The future of the remaining nine sub-branches is apparently under review.

These boutiques, opened during the late 1980s, are also on the cost-cutting list of other leading brokers. Yamaichi Securities, which had a net loss of Y15.8bn for the first half, has closed all 10 of the sub-branches established since the Finance Ministry approved the concept in 1985.

Nomura also plans to cut computer system spending by 20 per cent over the next three years, and has asked staff to reduce general expenses, including entertainment and transport costs, by 20 per cent in this half. General expenses were supposed to be 5 per cent lower during the first half.

The reduction of 1,400 jobs will be done by cutting the annual intake of graduates and by not replacing general staff who retire or resign. Nomura said yesterday that none of its employees in Japan would be sacked.

Cutting staff and computer expenses is in stark contrast to the industry trend of the late 1980s, when companies installed computer networks able to handle a share trading volume far in excess of their needs in the 1990s. Daily share turnover on the Tokyo exchange last month was about a fifth of the 1988 level.

Nomura has already announced a lowering of its international profile.

The broker recently cut 35 staff from its London operations and closed three continental European offices.

Flotation of Chinese property group subscribed 230 times

By Simon Davies
in Hong Kong

HONG Kong's enthusiasm for Chinese flotations has not seemingly been effected by this week's share price plunge. The public offer of shares in Guangzhou Investments, a mainland-owned property company, was provisionally subscribed around 230 times when the offer closed yesterday.

The colony's Hang Seng Index has shed 575 points, or 9.6 per cent, in just three days of trading, yet small investors showed sufficient confidence in corporate China to put forward in the region of HK$100bn (US$12.9bn) for a $HK446m issue.

Guangzhou Investment is wholly-owned by the Guangzhou (Canton) Municipal Government and is involved in sizeable property developments in both Hong Kong and China.

Armed with immaculate connections across the border, investors are assuming the company will be able to cash in on booming property prices in southern China, while remaining sufficiently insulated from the current political uncertainty in Hong Kong.

Li Ka-shing: holding group to take a 7.5 per cent stake

The most recent mainland new issue in Hong Kong, China Travel Service, was 411 times subscribed in early November. Despite the subsequent stock market performance, it closed yesterday at a 127.5 per cent premium to its issue price, providing some justification for the response to Guangzhou Investment.

The property company is offering 425m shares at $1.05 and has the backing of Mr Li Ka-shing's Cheung Kong Holdings, which is taking a 7.5 per cent stake, thereby building up contacts with a potentially useful source of property projects.

The offer period for another major Hong Kong flotation opens today but analysts are less confident over the outcome. National Mutual Asia is the largest public offer since June 1990, but despite the uncertain market climate the underwriters decided to go ahead with the issue.

In May 1989, the colony's largest rights issue by Hopewell Holdings was withdrawn as stock market confidence shattered in the midst of the student demonstrations in Beijing. Merchant bankers had considered it possible the National Mutual flotation would receive a similar response.

Astra slides as stake sale speculation intensifies

By William Keeling in Jakarta

ASTRA International, Indonesia's troubled automotive company, reported net profits of Rp59.2bn ($28.6m) for the nine months to December, a 69 per cent fall on year-earlier figures.

The results coincided with renewed speculation that the Soeryadjaya family, Astra's majority owners, are preparing to sell a substantial stake.

Net of extraordinary items, Astra made Rp16.6bn in the third quarter, an improvement on the Rp5.2bn loss in the second quarter but slightly below brokers' forecasts. Brokers said net profits for the year were unlikely to break Rp80bn, against Rp210bn in 1991.

The Soeryadjayas own 57 per cent of Astra but are under pressure to sell shares to raise finance for their privately-owned Bank Summa. Bank Summa was suspended in mid-November with bad debts exceeding Rp1,000bn.

Brokers say Mr Prajogo Pangestu, a prominent Indonesian businessman and a close associate of the family of President Suharto, has emerged as a potential purchaser for a large portion of the Soeryadjayas' Astra holding.

Bank Summa's problems have prompted public concern over the wider health of the banking sector, resulting in a run on two banks.

Bank Subentra and Bank Surya have reported large withdrawals following speculation they had fallen into arrears with the central bank. This has been denied by the central bank, which has declared them to be in sound financial health. Mr Sudwikhatmono, a shareholder in both banks and a relative of President Suharto, has called for rumour-mongers to be charged with subversion.

● Mr Eka Widjaja will step down as president commissioner of Bank International Indonesia, Indonesia's third largest private bank and a listed company.

Hungary spices up investor appeal

Nicholas Denton examines a mould-breaking government bond

FOREIGN investors in the Hungarian stock market, until now limited to slow-performing equities, have won direct access to the far more vibrant market in government bonds.

The breakthrough comes with Hungary's invitation to foreigners, along with domestic investors, to subscribe to a mould-breaking five-year state bond.

The "paprika bond," nicknamed after the peppers which spice Hungarian food, is the first long-term government security in post-communist central and eastern Europe to offer a truly fixed coupon.

Kulturvest, a subsidiary of Banque Indosuez Hungary is marketing a Ft7bn ($84m) issue.

The bond, priced at 99.5 per cent, bears a coupon of 16 per cent with both interest and redemption convertible into dollars at the prevailing exchange rate.

A separate B tranche is to be marketed internationally.

The government claims that the issue yield of 16.2 per cent should compensate outside investors for currency risks, which this year has amounted to little over 5 per cent.

The move to widen investor appeal opens up an important new route into Hungarian government paper for foreign investors, who could to date only participate through intermediaries.

The paprika bond provides an alternative to the investment funds focusing on government securities set up by CA Securities, the Hungarian investment banking arm of Austria's Creditanstalt, and four other institutions.

The funds have limited use since they are permitted to sell up to 20 per cent only to foreigners, although some have effectively worked around the rule.

The latest issue is potentially much more attractive to investors than the three-year bond which launched the government bond market last October but was closed to foreign subscribers.

However, brokers tend to agree that no rush of money is likely to result from the five-year bond issue, symbolically important as it is.

First of all, the Finance Ministry is beginning with a small transaction to "test the market." Moreover, Mr Peter Zelnik, manager of Europartners, the Finance Ministry's adviser on the transaction, admits that western interest for the five-year bond is relatively low.

"Investors are simply not aware the opportunities and the risks attached to the Hungarian forint," he says.

Western brokers argue rather that the yield of just over 16 per cent is simply too low for a path-finding issue, some saying that it would need to be closer to 20 per cent to be attractive internationally.

The five-year bond's significance is more that it sets a standard for follow-up issues. "We are speaking about a new market, not just a new issue: now the forint market is opening to foreign investors," says Mr Zelnik.

Treasury bills and the three-year state bond have recently accounted for more than 90 per cent of turnover on the Budapest stock exchange and have dwarfed equities' trading.

The government needs to broaden further the debt market to to finance a growing budget deficit.

The Finance Ministry calculates on a shortfall in central government finances next year of Ft185bn and a total public-sector deficit equivalent to about 6 per cent of GDP.

Reforms of public finances limit the amount that the state can borrow at preferential interest rates from the National Bank of Hungary, the central bank, and pressure is increasing for further securitisation of the existing state debt of Ft1800bn.

The government is moreover eager to diversify state borrowing which currently leans dangerously on commercial bank purchases of Treasuries and central bank borrowing on international bond markets.

The authorities feel the timing is right for the move because Hungary's economy seems to have stabilised.

Inflation, interest and currency depreciation rates have fallen sharply – and have brought investors' economic expectations closer into line with the government's optimism.

However, not everyone is convinced that a wider bond market is an unadulterated benefit for the stock market as a whole.

"It works for the debt market but against the equity market," says Mr Zsigmond Jarai, the Budapest representative of James Capel, the UK brokerage.

"It depends on what you call a stock market. The real sign of building capitalism is equity rather than debt," he added.

However, other brokers hope that deep markets in government debt will establish a true yield curve and bond benchmarks by which other issues can be priced.

"It is helpful for the stock market as a whole," says Mr Andras Simor, managing director of CA Securities.

WMC to cut nickel production

By Bruce Jacques in Sydney

WESTERN Mining Corporation (WMC), the Australian metals producer, has confirmed production cuts at its Western Australian nickel operations in response to low world nickel prices.

The company has also announced that its Chibougamau gold/copper mine in Canada will be put up for sale. WMC directors said yesterday the company's nickel division was operating at a loss at current nickel prices.

Directors did not spell out the exact extent of nickel production cuts likely for the current full year, but they said operational changes would be made at both the Kambalda and Leinster complexes.

"The nickel division will continue with its previously-announced long-term expansion and cost-reduction strategy with the objective of lowering total costs below $2.50 per pound," they said.

"Every endeavour is being made to urgently reduce current spending and enhance WMC's competitive position. The nickel division operations will remain under review having regard to the continuing necessity to reduce costs and the fluctuations in the nickel price."

The Chibougamau operations were marginally economic and could not be sustained at current metal prices. If a sale could not be completed by January 31 1993, the operations would be closed and site reclamation commenced, the company said.

● The Australian Mining Industry Council (AMIC) has released figures indicating that net profits of Australian mining companies fell 27 per cent in the 1991-92 year to A$1.87bn (US$1.2bn).

It was the industry's second consecutive year of significant decline, with earnings peaking at $A4.33bn in 1990. It was also the industry's lowest level of profits since 1987.

GE Capital in deal with UMW

UMW Group of Malaysia has entered into a deal with General Electric Capital Asia Investments to set up a financial services joint-venture in Malaysia, Reuter reports from Kuala Lumpur. Under the deal, GE Capital, part of the General Electric group of the US, will take a 49 per cent equity stake in UMW's Seabanc Factors, which will operate as a joint-venture holding company.

● Perusahaan Otomobil Nasional (Proton), the manufacturer of Malaysia's national car, reported a 36 per cent fall in pre-tax profit for the six months to September. Sales dipped 12 per cent to M$908m (US$363.2m).

CONTRACTS & TENDERS

INTERNATIONAL CAPITAL MARKETS

Gilts tumble following disappointing auction

By Sara Webb in London and Patrick Harverson in New York

UK GOVERNMENT bonds fell a quarter-point after the Bank of England's disappointing auction of government bonds.

The Bank offered £2.5bn of a newly-created stock, the 8 per cent gilt due 2003, which is expected to take over as the new 10-year benchmark gilt.

However, demand for the stock was poor: the Bank reported a cover ratio (the ratio of bids to the amount on offer) of only 1.26 times, and the auction was dominated by domestic players as foreign investors continued to shy away from the gilt market.

GOVERNMENT BONDS

The lowest accepted price was 96 11/16, to yield 8.48 per cent, while the highest accepted price was 96 15/16, yielding 8.46 per cent. The spread of bids was relatively narrow, as dealers pointed out that it was not difficult to price the new gilt.

"The bids were very tightly grouped around the market level", said Mr John Shepperd, economist at S. G. Warburg Securities.

The auction was the first since sterling left the European exchange rate mechanism in September. Foreign investors have been reluctant to invest in gilts since then because of the greater exchange rate risk, and were largely absent from yesterday's auction. Both domestic and foreign investors have become concerned about the heavy funding pressures on the market and the possibility of rising inflation.

Dealers said that quite a lot of the auction stock ended up with marketmakers, and warned that this could overhang the market for a while.

■ GERMAN government bonds ended weaker as the Bundesbank emphasised its commitment to low inflation, wiping out any hopes of lower German interest rates.

In addition, the new issue of bonds from Treuhand, the privatisation agency, had a poor reception which further depressed the bund market.

The Liffe bund futures contract fell from its opening 91.03 to a low of 90.71 on around 45,000 contracts.

The fall in bund prices followed comments from Mr Helmut Schlesinger, the Bundesbank president, that Germany should not give up its tight monetary policies to fall in with the wishes of other European countries.

The Treuhand agency yesterday allocated DM 4.05bn of its new ten-year 7¾ per cent bonds in a tender. The minimum accepted price was 99.51, and the average was 99.54, for a yield of 7.44 per cent.

■ JAPANESE government bonds closed higher on expectations of a cut in interest rates. The benchmark No 145 opened with a yield of 4.605 per cent and climbed steadily all day, to close at 4.58 per cent.

The rate on three-month certificates of deposit fell from 3.8 per cent to 3.75 per cent, encouraging hopes that the Bank of Japan may cut the Official Discount Rate this month. Dealers said the passage of the supplementary budget in Japan's lower house added to the bullish mood.

■ US TREASURY prices were mixed across the range yesterday as dealers and investors traded cautiously ahead of today's important November employment report. By midday, the benchmark 30-year government bond was up ⅛ at 100 19/32, yielding 7.548 per cent.

Prices were slightly weaker at the short end of the market, however, with the two-year note down 1/16 at 99 31/32, to carry a yield of 4.841 per cent.

All eyes were focused on the jobs data due out this morning. Recent statistics have painted a picture of a gradual recovery, but the employment report should give the best indication yet of of economic conditions.

Nervousness ahead of the figures partially explained why there was little reaction to news that US home sales plunged 10.3 per cent in October. But the chief reason for the market's indifference was the unreliability of home sales data, and the fact that the big drop in October sales was offset by a large upward revision in the September number.

FT FIXED INTEREST INDICES

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Year ago	High *	Low *
Govt Secs(UK)	92.81	92.90	92.56	93.44	93.75	89.22	95.54	85.11
Fixed Interest	108.04	107.92	108.01	108.38	108.66	96.03	110.26	97.15

Basis 100: Government Securities 15/10/26; Fixed Interest 1928. * for 1992. Government Securities high since compilation 127.40 (9/1/35), low 49.18 (3/1/75). Fixed interest high since compilation: 110.26 (12/11/92), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Dec 1	Nov 30	Nov 27	Nov 26	Nov 25
Gilt Edged Bargains	158.5	155.0	129.8	133.1	156.6
5-Day average	146.6	151.9	149.2	155.2	160.3

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	106.6333	-1.301	8.97	8.79	8.95
BELGIUM		8.750	06/02	104.3700	-0.010	8.07	8.03	8.16
CANADA *		8.500	04/02	102.5500	+0.500	8.10	7.97	7.69
DENMARK		9.000	11/00	99.7500	-0.600	9.04	8.97	8.90
FRANCE	BTAN	8.500	03/97	101.0069	-	8.18	8.17	8.11
	OAT	8.500	11/02	101.3250	-0.340	8.30	8.22	8.17
GERMANY		8.000	07/02	103.6200	-0.420	7.45	7.33	7.39
ITALY		12.000	05/02	92.8250	-0.895	13.78†	13.49	13.60
JAPAN	No 119	4.800	06/99	101.6454	+0.154	4.48	4.49	4.61
	No 145	5.500	03/02	105.9651	+0.206	4.59	4.60	4.69
NETHERLANDS		8.250	06/02	104.6800	-0.210	7.54	7.43	7.57
SPAIN		10.300	06/02	86.3750	-0.575	12.82	12.59	12.70
UK GILTS		10.000	11/96	108-13	+2/32	7.51	7.23	7.19
		9.750	08/02	107-26	-7/32	8.55	8.34	8.27
		9.000	10/08	101-02	-10/32	8.87	8.73	8.73
US TREASURY *		6.375	08/02	96-04	-5/32	6.93	6.83	6.83
		7.625	11/22	100-30	+3/32	7.54	7.53	7.63
ECU (French Govt)		8.500	03/02	97.4550	-0.395	8.91	8.84	8.82

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. *Technical Data/ATLAS Price Sources*

SIB issues guidance on derivative instruments

By Tracy Corrigan

The Securities and Investments Board yesterday published two guidance papers on trading derivative instruments on exchanges, designed to clarify how the UK's Financial Services Act should be applied to derivatives.

The first paper deals with *incentive schemes initiated by* exchanges in order to encourage trading activity, while the second paper provides guidance on what constitutes a proper trade and a proper market.

Both reviews were sparked in part by last year's scandal on the London Futures and Options Exchange (FOX), which involved the rigging of its now defunct property futures contract.

Mr Barry Gittins, who is in charge of derivatives and securities regulation at the SIB, said the papers were designed to make it simpler to apply the Act to derivatives. The FSA's rules on acceptable practice are focused on securities, and do not give specific rules on how to deal with derivatives.

Mr Gittins added that a review of over-the-counter derivatives trading, an even more complex area, may be undertaken in the future.

Mr Michael Jenkins, who took over as chairman of FOX in the wake of the property futures trade-rigging scandal, welcomed the guidance papers, which he described as "overdue". He said that it was "right for regulators to issue guidance on the interpretation (of the FSA) so that exchanges can issue rules accordingly".

Comments on the draft guidance on proper trades and proper markets are invited by the SIB.

■ *Incentive Schemes in Relation to On-Exchange Derivatives, £2. Draft Guidance on Proper Trades and Proper Markets in Relation to On-Exchange Derivatives, £5. Available from the Securities and Investments Board, Gavrelle House, 2-14 Bunhill Row, London EC1Y 8RA*

EC conflict over proposals for deposit protection scheme

By Robert Peston, Banking Editor

DEPOSITORS at UK banks could get greater compensation when a bank fails, if a European Community directive on deposit protection schemes is agreed.

However, EC members are at loggerheads over the proposed directive, and will air *grievances at a Financial* Attaches' meeting in Brussels today.

Most EC members agree to the principle that if a bank from one country has a branch in another country, depositors of that branch should be covered by the deposit protection scheme operating in the home country of the parent bank. At the moment, depositors are protected by the scheme operated by the country in which the branch is operating, or the host country.

However, Germany, which is receiving some support from Italy, questions whether it is necessary to have an EC directive at all, arguing that deposit protection schemes are a matter of national rather than EC concern.

Most EC members also agree that a minimum level of deposit protection should be provided in all EC countries, though countries should be free to decide the maximum level of protection they are prepared to give.

Thus Germany and Italy would be able to continue to give a guarantee to depositors at their banks that they would not lose anything in the event of a bank failure. On the other hand, the UK would continue to pay no more than £15,000 to each depositor.

But there are three important issues on which there is little agreement between EC members:

- France believes that the minimum level of insurance for the EC should be Ecu60,000, compared with an Ecu15,000 minimum proposed in the draft. The UK supports the Ecu15,000 minimum.
- Italy and Germany are opposed to a proposal that bank branches whose home country has a low level of deposit protection can opt into the higher level of protection offered in a host country, such as Germany and Italy.
- The draft directive proposes that depositors should always face some risk of loss on their deposits, which is known as *the principle of co-insurance*, whereas France, Belgium, Denmark, Germany and Italy all oppose co-insurance.

Thus the draft directive says that any country which implemented only the minimum level of protection would compensate depositors in a failed bank for only 90 per cent of their deposits up to Ecu15,000.

On the other hand, France and it allies want 100 per cent protection up to Ecu15,000. The British Bankers Association wants the UK to retain its current 75 per cent compensation rate.

Meanwhile a US Federal Reserve economist, Ms Sydney Key, will argue in a paper to be delivered in Brussels today that the directive is seriously flawed by the absence of a maximum level of deposit protection for EC members.

Allure of dollar and D-Mark underlined

By Brian Bollen

INTERNATIONAL BONDS

ATTENTION fell on the performance of the UK government's $2bn Eurobond yesterday. The 10-year issue continued to trade at its launch spread of 22 basis points over US Treasuries, proving, said traders, that the borrower had got the pricing right.

The day's new issues helped to underline the attractions of the US dollar and the D-Mark at a time of currency uncertainty. Defying the sceptics who believe the market has had its fill of such instruments, Kidder Peabody said its $100m 10-year collared floater for GECC enjoyed good sales in continental Europe, especially in Switzerland.

Kidder Peabody's $200m five-year floating rate note for Nacional Financiera, the Mexican government agency, uses a guaranteed pass-though structure. It is guaranteed by Nafinsa and has the additional security of loans from Nafinsa to 18 other Mexican banks. Nafinsa will use the repayments of these loans to retire the debt, giving it a short, 2¼-year, average life.

The yield to average life is 260 basis points over Libor.

Confirming the demand for D-Marks, Lehman Brothers said the DM100m five-year issue it launched for SBAB, the Swedish National Mortgage Housing Association, was driven by a lead institutional order. It was issued under the borrower's existing medium-term note programme and targetted at German institutions.

Swiss Bank Corporation in Germany increased another GECC issue after strong demand, raising to DM300m from DM250m the seven-year bonds launched a day earlier.

Rabobank Nederland brought the Bank for Dutch Municipalities to market with a Fls 1bn 12-year issue targeted at retail investors and small portfolio managers.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Nacional Financiera(f)‡	200	(f)	99.75	1997	1/1½%	Kidder, Peabody Int.
GECC(a)‡	100	(a)	99	2002	50/25bp	Kidder, Peabody Int.
Sanwa Australia Finance(b)‡	50	(b)	100	2002	30/15bp	Sanwa International
YEN						
Jees International(c)‡★★	5.4bn	(c)	100.3	1996	-	Mitsubishi Finance Int.
D-MARKS						
SBAB	100	7.8	101.5	1997	-	Lehman Bankhaus
GECC(d)	50	7.375	101.7	1999	2¼/1.85%	Swiss Bk.Cp.(Deutsch)
Sugimoto Electric Co.(e)‡★★	10	(e)	100	1997	-	Daiwa Bank
GUILDERS						
Bk.for Dutch Municipalities	1bn	zero	42.538	2005	42½/28½	Rabobank Nederland

Final terms and non-callable unless stated. ★★Private placement. ‡With equity warrants. ‡Floating rate note. a) Coupon pays 25bp below 6-month Libor. Minimum coupon 5%, maximum 8⅛%. b) Coupon pays 50bp above 6-month Libor for first three years and 9½% fixed thereafter. Callable on December 1995 payment date at par. c) Coupon pays 50bp above 3-month Libor. Redemption into fixed rate paper at request of investors on any coupon payment date. d) Issue launched on Monday has been increased to DM300m. e) Coupon pays 40bp above 6-month Libor. f) Coupon pays 250bp over 3-month Libor. Sinking fund; maximum average life years is 2¼.

ACIL denied appeal in option case

By Tracy Corrigan

AUSTRALIAN Consolidated Investments (ACIL), the investment company which owns the former Bell Resources, has been refused leave to appeal against a Court of Appeal decision in favour of bondholders earlier this year.

The dispute arose when bondholders tried to exercise a put option for early repayment of principal at 117.7 per cent of par value on November 13, 1991. Instead, bonds were redeemed at only 103 per cent of their par value when the company exercised its call option.

The decision means the company must repay investors the remaining 14.7 per cent plus interest.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:45 pm on December 2

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day = Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread = Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn = The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	25	46	8
Other Fixed Interest	0	3	12
Commercial, Industrial	241	287	894
Financial & Property	89	169	544
Oil & Gas	5	27	53
Plantations	0	4	5
Mines	18	47	76
Others	13	74	30
Totals	391	657	1,622

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

... based on prospectus or other official estimates for 1993. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ¶ Issued in connection with reorganisation, merger or takeover. ‖ Price at a premium.

TRADITIONAL OPTIONS

- First Dealings Nov. 23
- Last Dealings Dec. 4
- Last Declarations Feb. 25
- For settlement March 8

Calls in ASDA, Danka Business Systems, Ladbroke, Learmonth & Burchett Management Sys., Premier Cons., Proteus Intl. and Tarmac.

3-month call rate indications are shown in Saturday editions.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

December 2 Total Contracts 22 310
Calls 12 795 Puts 9 515
FT-SE Index Calls 3 485 Puts 2 573
Euro FT-SE Calls 1 623 Puts 678
*Underlying security price. † Long dated expiry months. Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Wed Dec 2	Day's change %	Tue Dec 1	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (22)	127.98	+0.08	127.88	2.59	10.99
2	5-15 years (25)	144.41	-0.13	144.60	2.85	11.85
3	Over 15 years (8)	150.79	-0.30	151.24	3.08	10.57
4	Irredeemables (6)	167.83	-0.47	168.62	1.07	13.68
5	All stocks (61)	141.18	-0.09	141.30	2.80	11.64
	Index-Linked					
6	Up to 5 years (2)	183.68	-0.06	183.78	0.66	3.68
7	Over 5 years (10)	165.09	-0.06	165.18	1.28	4.04
8	All stocks (12)	166.38	-0.06	166.48	1.20	3.96
9	Debs & Loans (62)	121.68	-0.39	122.16	2.27	11.13

AVERAGE GROSS REDEMPTION YIELDS

			Wed Dec 2	Tue Dec 1	Year ago (approx.)
	British Government				
1	Low	5 years	7.33	7.35	8.82
2	Coupons	15 years	8.39	8.36	9.54
3	(0%-7¾%)	20 years	8.65	8.61	9.54
4	Medium	5 years	7.72	7.73	9.92
5	Coupons	15 years	8.86	8.82	9.69
6	(8%-10¾%)	20 years	9.02	8.98	9.63
7	High	5 years	7.94	7.95	10.15
8	Coupons	15 years	9.16	9.12	9.78
9	(11%-)	20 years	9.25	9.19	9.69
10	Irredeemables† (Flat Yield)		9.04	8.99	9.72
	Index-Linked				
11	Inflation rate 5%	Up to 5 yrs	2.55	2.53	3.93
12	Inflation rate 5%	Over 5 yrs	3.88	3.88	4.32
13	Inflation rate 10%	Up to 5 yrs	1.76	1.73	3.31
14	Inflation rate 10%	Over 5 yrs	3.70	3.69	4.15
15	Debs &	5 years	9.06	9.03	11.43
16	Loans	15 years	10.06	9.99	11.26
17		25 years	10.20	10.16	11.09

Management changes will result in splitting of leadership roles

Standard Chartered chief to quit

By Robert Peston, Banking Editor

MR RODNEY GALPIN is standing down as chairman and chief executive of Standard Chartered, the UK-based international banking group.

From the beginning of the year, the post of chief executive will be held by Mr Malcolm Williamson, currently Standard's managing director.

Mr Galpin, who is 60, will hand over the chairmanship in May to Mr Patrick Gillam, former managing director of British Petroleum. Mr Gillam is currently Standard's deputy chairman.

Mr Galpin joined Standard in July 1988 and became chairman and chief executive three months later. His appointment was encouraged by the Bank of England, which feared that confidence in Standard was eroding as a result of its poor financial performance.

Immediately before he joined the bank, Standard had narrowly escaped being taken over by Lloyds. However, its shares were controlled by three Far Eastern investors, the late Mr Robert Holmes à Court, Mr Tan Sri Khoo Puat and Sir YK Pao, known as the White Squires.

Since then Mr Galpin, who had been an executive director of the bank with responsibility for supervision, reorganised Standard's management and has overseen a steady improvement in profits. He also reduced the influence of the White Squires over Standard's affairs.

However, investors became concerned in the spring that Standard was still prone to accidents, when the bank became embroiled in an Bombay stock exchange scandal involving the forgery of securities. Standard has been forced to make a £100m provision to cover the risk of losses from its exposure to these securities.

Mr Galpin said yesterday that he had been thinking about retiring for two months. The management changes at Standard were approved by the board on Tuesday. He said he had recommended that Mr Gillam should succeed him.

He described the Indian losses as "very annoying" but said he was confident that the bank was now robust.

Standard also disclosed that two of its executives, Mr David Moir and Mr David Brougham, were also joining the board.

Life side helps M&G edge ahead to £39.4m

By Philip Coggan, Personal Finance Editor

A STRONG showing by its life insurance subsidiary helped M&G, the fund management group, record a marginal increase in pre-tax profits in the year to September 30.

Profits for the year were £39.41m (£39.24m). But the annual figures masked a 7 per cent fall in second half profits year-on-year.

M&G said that the first half figures had benefited from the launch of two investment trusts, Recovery and Income. The launches were not revenue earners, although they did cause a 78 per cent increase in marketing and commissions expenditure.

In the second half, the company shed 67 staff, including its former marketing director, Mr Tim Miller, resulting in total costs of £600,000. Offices were closed in Cardiff, Exeter and Southampton as part of a restructuring programme.

Insurance income rose from £8.16m to £10.19m, outweighing a fall in earnings from institutional fund management (down from £2.15m to £1.93m), and retail fund management (down from £22.44m to £21.06m).

Sir David Money-Coutts, chairman, said that unit trust sales fell from £468m to £296m, while redemptions rose from £345m to £404m.

Funds under management were £8.59bn at the end of September, down from £9.01bn at the end of the 1990-91 financial year. However, these figures reflect some double-counting because of unit holdings by life and pension funds. The "clean" figure for the end of September was £7.47bn.

Earnings per share came to 36.37p (36.1p). The final dividend was increased 2.3 per cent to 11p (10.75p), making a total for the year of 20p (19p).

● COMMENT

The results of fund management groups are always geared to the health of the stock market, but this may be even more the case with M&G this year. Its stock-picking investment style has been out of favour in the recession; an economic recovery should bring its portfolios back into fashion. If that happens, and performance improves, then M&G can reverse last year's pattern of net redemptions. If the stock market slips back, and private investors switch from cash to bonds, other groups have better reputations in the fixed interest field than M&G. The departure of Tim Miller may also have made some wonder whether all is well within the management team. Assuming a rise in pre-tax profits to £44m, the shares, down 4p to 560p yesterday, are on a prospective p/e of 14. Given the doubts, that rating looks high enough.

Lower interest costs help lift London Electricity to £17m

By Michael Smith

LOWER INTEREST costs helped London Electricity to increase interim pre-tax profits from £14.5m to £17.3m, in spite of lower operating profits due partly to reduced distribution charges.

The interim dividend was increased by 12 per cent from 5p to 5.6p, but the company was more cautious than others have been in recent days about growth prospects.

Mr John Wilson, chairman, said the policy was to achieve consistent growth in dividends "taking into account the expected medium-term trend in earnings."

In the six months to September 30, operating profits of £14.5m (£14.8m) were achieved on turnover of £584.3m (£568.5m). Total units of electricity distributed fell by 1 per cent. However, with weather factors stripped out, the company said underlying trends were for 0.7 per cent growth.

Commercial growth was 1.3 per cent (lower than in the last few years). The reduction was attributed to the effect of the recession, particularly on small commercial customers.

The introduction of lower distribution tariffs in April contributed to the decline in distribution profits from £58m to £54m. The supply business reduced losses to £35m (£38m).

Mr Wilson said a decision would be made by the end of the year about the retailing business, reduced from 60 outlets two years ago to about 20. Some analysts expect closure.

Total retail sales had risen as a result of increased selling space, but the business was adversely affected by market conditions. The programme to separate retailing from customer services, both financially and physically, would be completed by the year-end.

Electrical contracting had already been restructured, and with a reduced workforce of 100 (400), was breaking even.

A reduction in debtor days – a measure for outstanding accounts – from 38 to 29 contributed to a marked fall in borrowings and a reduction of £2.5m in net interest paid to £3.1m.

● COMMENT

The cautious policy on dividends is perhaps typical of a company that critics says is too plodding to merit its medium rating among regional electricity companies. London tends to brag its merits less than other regional electricity companies and it is less adventurous. Its involvement both in retailing and independent gas-fired generation, where the risks and rewards are greater than in the core businesses, is below average. Supporters say the company is more likely than others to end up on the right side of the regulator in forthcoming pricing negotiations, especially after its improvement in customer service, particularly disconnections, and its separation of retailing from servicing. The latter will eliminate suspicions, to which other RECs are vulnerable, of cross subsidies. Assuming a 12 per cent dividend rise to 18.8p, the shares are on a prospective yield of 5.9 per cent.

TT in £13m bid for AB Electronics

By Richard Gourlay

TT GROUP, the industrial holding company, yesterday ended five months of friendly talks with AB Electronics by making a recommended £13m bid for the Welsh-based group that has been mauled by falling contract assembly, defence and automotive markets.

TT's offer of 10 new shares for 37 AB shares has the unusual feature of valuing its target's shares at 49.2p, or nearly 7p below the market price before the bid.

In July TT took a 6.3 per cent stake in AB, which pushed the share price up to 90p, since when it has slipped back. It now controls an 8 per cent stake.

TT is offering a full cash alternative of 45.1p, underwritten by Samuel Montagu. In conjunction, Samuel Montagu is raising £7.7m through a placing of 4.59m shares at 167p, subject to clawback by existing shareholders.

TT's gearing is likely to rise to 60 per cent as a result of the deal, which comes hard on the tail of the acquisition of Magnetic Materials in July.

Mr John Newman, TT chief executive, said the offer price reflected AB's trading outlook. He said the two companies had compatible businesses. TT is likely to focus on the costing and range of AB's products and integrate distribution and manufacturing facilities.

Sir Peter Phillips, AB's chairman, said in a statement that his company had faced tough trading conditions coupled with rationalisation and reorganisation costs. There was also evidence of a "faltering in the recent improving trend in order taking".

Mr Newman is the third ex-Hanson employee to launch bids in the past few months. He follows Mr Greg Hutchings at Tomkins, who is bidding for RHM, and Mr Chris Miller at Wassall, who is bidding for Evode.

For 10 years after leaving Hanson's acquisitions department in 1977, he ran private companies before reversing two of them into Tyzack Turner.

Since then, the renamed TT has developed a reputation as an acquisitive industrial mini-conglomerate. But the purchase of Crystalate in 1990, Magnetic Materials earlier this year and now AB, has effectively transformed the group into an electronics product group for the time being.

AB's fall, from a market capitalisation of more than £120m in 1987 to less than £16m yesterday, has been in line with the waning fortunes of the electronics industry.

Based in the Rhondda Valley in Wales, AB has been a large contract assembler of electronic systems and surface mount boards (SMT) for blue-chip customers such as IBM, Olivetti-Acorn and Jaguar.

But AB has been hit hard in all three of its markets. Demand for board assembly has fallen with demand for computers; its automotive division has been hit by a fall in demand for sensors, particularly from the luxury end of the market; and its components division has been hit by the slowdown in defence spending.

Sir Peter Phillips has been invited to join the TT board, at least until next year's AGM.

NM Rothschild has advised AB shareholders that the TT offer is fair.

TT's share price fell 4p to 182p yesterday.

Yorkshire Water rises to £72m

By Angus Foster

YORKSHIRE WATER yesterday announced a 12 per cent increase in pre-tax profits from £64.1m to £71.8m for the six months to September 30.

Profits were boosted by £4.4m from the sale of 50 per cent of Yorkshire's engineering business to Babcock International in May. Yorkshire and Babcock now operate the division, renamed Babcock Water Engineering Limited (BWEL), as a joint venture.

Turnover increased 9.1 per cent to £239.5m. In Yorkshire's regulated water and sewerage business turnover increased 7.3 per cent, mainly due to average price rises of 7.1 per cent.

Yorkshire Water Enterprises, which includes the company's unregulated businesses, reported turnover of £11.2m, compared with £6.5m in the previous period. Excluding profits from the sale of BWEL, enterprise profits were close to £1m.

Mr Malcolm Batty, group finance director, said "tight control" of costs, and improved efficiency, helped restrict the increase in operating costs to £166.4m, a 6.8 per cent increase. Pay awards of 4 per cent were awarded. The operating margin improved 1.5 percentage points to 30.5 per cent.

In the regulated business, capital expenditure increased 8.7 per cent to £138m and is expected to total £300m for the full year, an increase of £10m. Infrastructure renewals increased 36 per cent to £26m.

A cash inflow of £16m reduced net borrowings to £130m (£140m). Mr Batty said debt was likely to rise to about £200m by the year end as Yorkshire's investment programme continued.

Earnings increased 11.3 per cent to 34.4p (30.9p). The interim dividend is raised 8.5 per cent to 7.05p (6.5p).

The shares gained 1p to 502p.

● COMMENT

As with the rest of the water sector this reporting season, Yorkshire's results contained few surprises. Although recession played a small part in reducing measured water volumes, the effect on turnover in the core business was more than compensated by new commercial property connections during the period. On the enterprise side, Yorkshire's environmental business and its moves to transfer non-essential operations outside the core do look promising. But profits will remain small for some time, even though second half profits should be lifted by perhaps £1m of property profits. Full year forecasts of £135m put the shares on eight times. That is slightly ahead of the sector, but looks about right given Yorkshire's solid reputation.

Reduced interest income leaves Cape 9% lower

By Peggy Hollinger

REDUCED interest income depressed profits at Cape, the building products and industrial services company, by 9 per cent to £6.52m for the first half.

At the operating level, Cape returned virtually flat profits of £6.39m (£6.37m). However, a £665,000 drop in interest gains to £131,000 left the pre-tax line £650,000 lower on sales 31 per cent ahead to £128m.

Mr Keith Jackson, finance director, said profits had been bolstered by strong growth in the industrial division, which offset a decline in building services.

Industrial operating profits were 36 per cent ahead to £4.1m, enhanced by the inclusion for a full six months of the Cleton Insulation business in the Netherlands. Since being purchased for £4.4m in July last year it had "performed extremely well," Mr Jackson said.

However, growth in the industrial services activities – which supply insulation and scaffolding to the power and petrochemical industries – was beginning to flatten out.

On the building and architectural products side, operating profits fell 24 per cent to £3.2m on turnover just 5 per cent down at £35.5m. Mr Jackson said there was no sign of an improvement in this division, particularly in the UK.

Cape continued to reduce its dependence on the recession-hit UK, with overseas sales amounting to some 44 per cent of group turnover, against 32 per cent last time.

Since the previous year, two industrial services companies had been purchased for a total of about £2m – one in the UK and the other in Germany. This, along with increased capital expenditure for the year of £8.5m (£7.5m), was partly behind the decline in cash balances from £8.8m to £5.9m.

Mr Jackson said at least one further bolt-on acquisition was planned before the end of the financial year.

The dividend was maintained at 3p, on earnings per share down from 9.3p to 8.2p.

Erskine House down 29% as UK machine sales suffer

By Peggy Hollinger

PRE-TAX profits at Erskine House, the office equipment services company, tumbled 29 per cent to £4.7m following a severe decline in UK machine sales.

Mr Brian McGillivray, chairman, said the group was "searching very hard" for signs of a pick-up in UK trading, but there had been none so far. New machine sales had fallen by 24 per cent in the UK in the first half, with margins under severe pressure.

Germany was also proving more difficult than last year, he said, although the US continued to show improvement.

As a result of this, and exceptionally difficult trading in October and November, Mr McGillivray said about £1m in annualised costs had since been taken out of the services division and administration. The sales force had already been cut by 50 per cent over the past 18 months.

During the six months to September 30, overall sales fell from £89.1m to £87.3m. Turnover in the UK declined by 11.4 per cent to £24.9m, with operating profits down by 60 per cent to £1.12m.

In Germany, the operating profit slide from £745,000 to £214,000 had been disappointing, but were an improvement on the second half.

The good news from the US, with dollar profits 9 per cent ahead, was virtually wiped out by currency translations. In sterling terms, US operating profits were flat at £5.1m (£5.02m). Mr McGillivray said the US was "getting better, but not yet booming".

He expected the losses on exchange rates in the first half to be offset in the latter period by the devaluation of sterling.

The dividend was maintained at 3p, reflecting "a degree of confidence that we are capable of improving", said Mr McGillivray.

Earnings fell from 6.3p to 2.5p per share, hit by a £500,000 write-off in advance corporation tax. Mr McGillivray said that put taxation on UK profits at about 60 per cent.

Provisions put Porter £5m in loss

By Peter Pearse

PROVISIONS amounting to £7.05m forced Porter Chadburn, the packaging and consumer products group, into pre-tax losses of £5.26m in the six months to October 2.

The disposal of Gola, the sports equipment concern, was the main source of the charges which caused the turnround from profits of £2.67m last time. However, the interim dividend is maintained at 0.85p.

The consumer products side, which includes the Head sports equipment brand, Adam Leisure, and fishing tackle distribution, was hit by a lack of consumer confidence and problems with creditworthiness in some smaller customers.

Operating profits in the division's continuing businesses declined to £719,000 (£2.35m) on increased sales of £31m (£27.5m).

Mr Raymond Dinkin, chairman, said there would be no further fall-out from the Gola disposal.

Gola was sold to William Lamb (Holdings) in September, though Porter retains the Gola name for three years, in which time it is paid royalties. Lamb can buy the brand for £1.35m cash within the term and Porter can require that Lamb buy it for £800,000 at the end of the term.

Sales in the packaging division grew to £23.9m (£15.2m) and operating profits to £2.29m (£1.42m). Lancer Labels, which was acquired for £14.9m in March, contributed £4.8m to sales and £600,000 to profits.

Mr Dinkin said that the subsidiary, making "long-run" labels for the food and drinks industry, lifted sales by 20 per cent and profits by more.

Profits from specialist distribution fell to £379,000 (£576,000) on sales of £8.13m (£8.67m).

Group operating profits fell to £2.18m (£3.86m). But, said Mr Dinkin, the figure would have been £3.4m (£4.3m) after adjusting for Gola's losses prior to disposal.

Losses per share were 5.52p (earnings 2.95p).

Branson halts share sale for Virgin Atlantic expansion

By Paul Betts in Orlando

MR RICHARD BRANSON has put on ice plans to sell a 10 to 25 per cent stake in Virgin Atlantic Airways. He says the future of his carrier and other smaller independent airlines is threatened by European Commission proposals on allocation of take-off and landing slots at congested EC airports.

Virgin announced earlier this year that it was seeking to raise about £50m by selling a minority stake in its airline operations to investors to help fund expansion of routes and new aircraft.

But Mr Branson said in Orlando yesterday that those plans were now in jeopardy because Virgin could not secure additional slots at London's Heathrow airport to operate new international services. He also said EC transport ministers were expected to approve next week new regulations on slots that were likely to make it even harder for smaller airlines to gain access at congested European airports.

"Without additional slots at Heathrow, the airline's development will come to a full stop," Mr Branson warned. Potential investors in the airline were also holding back until Virgin's slot problems were clarified.

Virgin wants to expand flights from London to San Francisco, Johannesburg, Washington, Singapore and Australia as well as starting a shuttle service between London and Paris, called Le Virgin Shuttle, to compete with British Airways and other large flag carriers.

In Florida yesterday, Mr Branson launched a new holiday airline called Virgin Vintage Air Tours, operating old DC3 Dakotas between Orlando and Key West. The venture is also considering flying from Key West to Havana, Los Angeles to Palm Springs, and between Miami and Orlando.

Mr Branson said Virgin was considering acquiring or leasing up to 18 wide-bodied aircraft over the next six years to expand and renew its fleet. Virgin currently operate eight older Boeing 747-200 airliners.

Mr Branson said he was looking at the new Boeing 777 powered by Rolls Royce Trent engines, as well as Airbus A340 long-range airliners.

Virgin's expansion was expected to double the airline's workforce from 3,000 to 6,000 over the next four years.

Although the new EC proposals were designed to give smaller carriers more opportunities to compete at crowded airports like Heathrow, Mr Branson said the latest plans risked consolidating the dominance of big flag carriers at these airports.

Mr Branson has written this week to Mr John MacGregor, UK transport secretary, asking him to block the proposals, due to be considered by EC transport ministers next Thursday as part of the liberalisation of European air transport.

Virgin says the EC plans would legalise the controversial system of "grandfather rights" whereby an airline has automatic rights to slots it has historically held at an airport.

The EC originally proposed to confiscate some slots from bigger airlines to enable new entrants to operate at congested airports.

Instead, the EC is planning to tighten so-called "use it or lose it" rules. "Big airlines will simply keep operating slots, unprofitably if necessary, to keep their slot banks intact and smaller competitors out," Mr Branson said.

In his letter to Mr MacGregor, the Virgin chairman said the EC proposals were "perhaps the most anti-competitive piece of legislation ever suggested for an industry still rife with anti-competitive practices". He warned the policy would result "in permanently higher fares".

With an annual turnover of about £350m Virgin is expected to be about break-even this year. "We might show a small profit or possibly a small loss," Mr Branson said.

New prop: Virgin Vintage Air Tours will fly old DC3 Dakotas between Orlando and Key West

Temple Bar to raise £25m via debenture placing

By Philip Coggan, Personal Finance Editor

TEMPLE BAR Investment Trust, a UK general trust managed by Guinness Flight, is raising £25m via a placing of debenture stock.

The trust previously had a 6 per cent convertible unsecured loan stock 2002 which was redeemed, at the holders' option, in August. The directors "consider that the recent fall in the level of interest rates in the UK now offers a favourable climate in which to restore the long-term gearing in the company's capital structure."

The stock, which will mature in 2017, will have a gross redemption yield of 9.8 per cent, based on an issue price of 99.746 and a coupon of 9⅞ per cent. SG Warburg Securities is acting as agent for the company in relation to the issue.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Eastern Electricity, Greycoat, Johnson Matthey, Latham (James), London International, Oceonics, Scapa, Scottish Hydro-Electric, Severn Trent, Shanks & McEwan, Smith New Court, Syltone.

Finals- Control Techniques, Grand Metropolitan, Hanson, Metro Radio, Murray Enterprises, Royal Bank of Scotland, Western Selection.

FUTURE DATES

Interims-	
Arlen	Dec. 10
Berkeley Group	Dec. 14
Bogod	Dec. 8
Brit. Bio-Technology	Dec. 14
Faupel Trading	Dec. 21
In Shops	Dec. 7
NMC	Dec. 9
Osborne & Little	Dec. 11
Southern Water	Dec. 15
Yorkshire Electricity	Dec. 16
Finals-	
Alvis	Dec. 16
Archer (A.J.)	Dec. 10
Greencore	Dec. 15
River Plate & General	Dec. 9
Southern Radio	Dec. 11

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Alba	int	1	Apr 26	1	-	4.75
Bass	fin	13.65	Feb 9	12.85*	18.9	17.8*
Caffyns	int	5	Jan 15	5	-	11.5
Cape	int	3	Jan 11	3	-	10.5
Erskine House	int	2.3	Jan 21	2.3	-	6.65
General Electric	int	2.68	Mar 31	2.55	-	9.8
Granada	fin	4.95	Apr 1	4.5	7.7	7
Ldn Electricity	int	5.6	Feb 24	5	-	16.8
M&G Group	fin	11	Jan 14	10.75	20	19
Mountview Ests	int	8	Mar 29	8	-	18
Porter Chadburn	int	0.85	Apr 6	0.85	-	2.5
Rowlinson Secs	int	0.24	Jan 22	0.24	-	1.35
Salvesen (Chris)	int	3.2	Feb 5	2.9	-	7
Tops Estates	int	0.5775	Mar 25	0.55	-	2
Yorkshire Water	int	7.05	Mar 8	6.5	-	19.5

Dividends shown pence per share net except where otherwise stated. *Adjusted for scrip issue. †On increased capital. §USM stock.

LEGAL NOTICES

IN THE MATTER OF
TRACKSHARE LIMITED
AND IN THE MATTER OF
THE INSOLVENCY ACT 1986

In accordance with Rule 4.106 of The Insolvency Rules 1986 notice is hereby given that I, Peter S. Dunn FCA, a Licensed Insolvency Practitioner of Latham Crossley & Davis, 7 Kenrick Place, London W1H 3FF, was appointed Liquidator of the above Company by the Creditors on 30th November 1992.

Dated this 30th November 1992

Peter S. Dunn FCA, Liquidator

Thor Chemicals Limited
THE INSOLVENCY ACT 1986

NOTICE IS HEREBY GIVEN pursuant to Section 95 of the Insolvency Act 1986 that a Meeting of the Creditors of the above-named Company will be held at 78 Hatton Garden London EC1N 8JA on 10 October 1992 at 12.00 Noon.

Creditors wishing to vote at the Meeting must lodge their proxy, together with a full statement of account at the registered office - New Garden House, 78 Hatton Garden, London EC1N 8JA, not later than 12 noon on 9 December 1992.

For the purposes of voting, a secured creditor is required (unless he surrenders his security) to lodge at New Garden House, 78 Hatton Garden, London EC1N 8JA, before the meeting, a statement giving particulars of his security, the date when it was given and the value at which it is assessed.

Notice is further given that a list of the names and addresses of the Company's creditors may be inspected, free of charge, at New Garden House, 78 Hatton Garden, London EC1N 8JA, between 10.00 a.m. and 4.00 p.m. on the two business days preceding the date of the meeting stated above.

B D S Kidner, Liquidator

BIT (HOLDINGS) LIMITED

Notice is hereby given that:-

(a) by a Special Resolution of the above named Company dated 30th November 1992 the Company was authorised to make a payment of £303,013 out of capital in accordance with Section 173(2) of the Companies Act 1985 for the purpose of acquiring 300,000 'C' Ordinary Shares of £1 each in itself;

(b) the Statutory Declaration and Auditors Report required by Section 173 of The Companies Act 1985 each dated 30th November 1992 are available for inspection at the registered office of the Company at Riverside House, Winnington Street, Northwich, Cheshire, CW8 1AD;

(c) any creditor of the Company may apply to the High Court under Sections 176 and 177 of The Companies Act 1985 within the period of five weeks immediately following 30th November 1992 for an Order prohibiting the payment.

Dated 3rd December 1992

OBITUARY

EVANS FREDERICK REDVERS OBE - on 30th Nov peacefully at his home in Leeds, in his 93rd year. Beloved husband of the late Rhoda White Evans. Father, Father in law, Grandfather and Great Grand- father. Founder and life president of Evans of Leeds plc. Service at Leeds parish church on Friday 4th Dec 1992 at 1pm, followed by private cremation. Flowers may be sent to the Church to arrive before 11.30am.

help lift £17m

to £72m

5m in loss

raise £25m placing

COMPANY NEWS: UK

Christian Salvesen rises 12%

By Angus Foster

CHRISTIAN Salvesen, the distribution, specialist hire and manufacturing group, yesterday announced slightly higher than expected profits and a 10 per cent dividend increase.

Pre-tax profits rose 12 per cent, from £36.1m to £40.4m, in the six months to September 30, helped by strong growth from mobile power generator hire and steady gains from UK distribution. All divisions increased profits except for Salvesen Brick, the specialist brickmaker which continued to suffer from lower prices.

Mr Chris Masters, chief executive, said the group's main markets were affected by recession. "Despite that, we're well ahead," he said.

The distribution division, where customers include Marks & Spencer and Sainsbury, increased operating profits 8 per cent to £16.8m. New contracts helped profits in the US and Benelux, although the lorry drivers' strike reduced profits in France by £250,000. The loss-making Langnese-Iglo contract in Germany, which was fully provided against in previous years, was terminated on November 30.

Aggreko, which hires out power and temperature control equipment, escaped the downturn in UK construction because of its wide customer base. Profits increased 33 per cent to £15.4m. About £1m of profit came from supplying equipment to the Barcelona Olympics.

Manufacturing, which includes food services, saw profits fall £500,000 to £10.3m after the brick division's profits fell £1m to £1.5m.

Turnover increased 3 per cent to £254.5m while operating profits gained nearly 12 per cent to £43.6m. Interest costs were £3.2m (£2.9m). Proceeds from the £28.5m sale of Salvesen (Oilfield Technology), where £11.2m was booked as an extraordinary profit, helped reduce net borrowings £20m to £60.7m. Gearing fell from 35 per cent to 23 per cent.

Earnings increased to 10.12p (9.01p). The interim dividend is lifted to 3.2p (2.9p).

Tony Andrews

Chris Masters: main markets affected by recession

● COMMENT

These figures earned well deserved applause and Salvesen's shares gained 15p to 346p, an all time high. Distribution continued to provide the backbone and although markets such as the UK look mature, there is further growth in Europe. But Aggreko was the star performer, even discounting the one-off gains in Barcelona. Its strengths are that it makes its own equipment and owns its distribution network, allowing healthy margins and flexible deliveries. The same advantages are now being applied to temperature control equipment, recently introduced in Europe from the US, and initial results are promising. Full year profits of £74m put the shares on more than 18. This does not look excessive. But after rising nearly 40 per cent in the last year, the shares may need a breather once follow through buying from the results dies down.

Dairy Crest 39% up but warns on margins

By Maggie Urry

DAIRY CREST, the milk and dairy products group which is to float in 1994, announced a 38.7 per cent rise in pre-tax profits to £17.2m for the half year to September 30.

The company, a subsidiary of the Milk Marketing Board, will be divested when the MMB is replaced by a co-operative in 1994.

Mr Geoffrey John, chairman of Dairy Crest, said that the business was constrained by its ownership. He said the group could not issue shares for acquisitions, was strictly limited in its operations to liquid milk and milk manufacture in England and Wales, and was still regarded as "user of last resort" for milk, putting it at a disadvantage to other buyers.

He said the company's strategy was to be in a position to compete with other dairy groups by the flotation.

A rationalisation programme was aimed at making Dairy Crest a low cost producer.

It had also made two strategic deals. It bought half of Unigate's liquid milk activities in 1989, giving it a 17 per cent share of that market. Last year it formed a joint venture with Yoplait of France on fresh products, such as yoghurts and desserts, which is the fastest growing sector of the dairy market but one where Dairy Crest had not been represented.

Mr John said that in the half year the volume of milk it was able to buy for processing fell by 5 per cent as quotas on milk began to bite. However, higher selling prices allowed turnover to rise 1.4 per cent to £574.8m.

In the second half significantly higher milk prices for milk used for manufacture would put margins under pressure, he warned.

Mr John Houliston, chief executive, said cost cutting, including a reduction of 1,000 in staff over the last year, helped push operating profit up 9.6 per cent to £28.5m. Operating profits per employee had risen by 21.6 per cent in the half year.

Associates, mainly the joint venture with Yoplait, contributed £500,000 (£100,000).

A fall in interest charges of £3.4m to £4.9m, of which about £2.8m came from lower borrowings and the rest from lower interest rates, more than offset a rise in exceptional costs from £5.4m to £6.9m. Those costs related to the rationalisation programme and the cost of moving doorstep delivery milk rounds to franchises.

Pub sales bring in £440m for Bass

By Philip Rawstorne

BASS, the UK's leading brewer, yesterday spelt out the full effects of the enforced sale of 2,700 of its pubs to comply with government beer orders.

Total receipts from the sales in the year to September 30 were £440m – an average price per outlet of £162,000 and 18 per cent above book value.

"We secured better value for shareholders by selling rather than leasing free of exclusive beer supplies," said Mr Ian Prosser, chairman.

The group benefited from an *early start to its disposal pro*gramme. The 1,500 outlets sold before the end of 1991 realised £256m, an average of £169,000; the remaining 1,200 fetched £184m, an average of £152,000.

This decline prompted a revaluation of all Bass properties, resulting in a write-down of £496m. Of this, £480m has been taken to revaluation reserve, and £16m charged to the profit and loss account. The write-down compares with a £1bn surplus at the last revaluation in 1989.

Pub profits were 25 per cent lower at £174m (£231m) on turnover of £1.1bn (£1.17bn).

Bass estimates that £40m of the profits decline was *accounted for by the reduction* in the estate. The rest was due to lower consumer spending, allied to a shift to drinking at home, and increased overheads and repair costs.

All of the beer volume lost with the reduction of the tied estate, however, was recouped by the brewing division's success in the more competitive free houses trade and take-home market.

Free-trade volumes grew nearly 10 per cent, and loans to free outlets increased from £398m to £485m. Supplies to the free trade now represent two-thirds of total production. There was a 5 per cent increase in volume sales to the *take-home market; and a 6.5* per cent rise in exports.

Bass is left with an estate of about 4,600 pubs, nearly a third of them under direct management. Spending on refurbishment and information systems amounted to £110m last year, and a further 1,000 pubs will be renovated this year.

An exceptional charge of £75m this time for rationalisation and reorganisation costs within the brewing and pubs operations follows a similar charge of £55m last year. "We do not expect any further provisions," Mr Prosser said.

With the UK restructuring almost completed, he is beginning to think tentatively about *the possibilities of expanding* the group's brewing operations overseas.

Mountview shows marginal growth to £3.6m

By Matthew Curtin

MOUNTVIEW Estates, the property dealing group, reported a modest 2 per cent increase in pre-tax profits from £3.54m to £3.62m in the half year to September 30, as higher rental income offset its exposure to the depressed south-east property market.

Turnover improved to £7.31m (£6.89m). In spite of higher earnings per share of 52.8p (51.7p), the Mountview board believed any increase in the interim dividend would be "injudicious in the uncertain economic climate" and is holding the pay-out at 8p.

Mr Duncan Sinclair, chairman, said trading income was flat, but rental revenue more than twice covered the company's administrative costs and finance charges.

Mr Sinclair said the availability of repossessed homes was "the most depressing factor" on the market, and it would take time before lower interest rates had an impact in improving market conditions.

GEC edges ahead to £356m

GEC REPORTED a "notably strong" performance in its three main divisions for the six months to September 30, though market conditions were not always favourable. Several other of its businesses were hit by recessionary conditions, however.

The company said "the devaluation of sterling and the recently announced improvements in ECGD cover will help us in our drive to win vital overseas orders".

On sales of £4.26bn (£4.49bn), pre-tax profits were £356m (£346m). After tax of £119m (£117m) and minorities unchanged at £21m, attributable profits were £216m (£208m). Earnings were 8p (7.7p) and the interim dividend has been raised to 2.68p (2.55p).

Divisional pre-tax profits were: electronic systems £87m (£86m); power systems £77m (£65m); telecommunications £61m (£60m); consumer goods £7m (£9m); electronic metrology £9m (£17m); office equipment and printing £15m (same); medical equipment £14m (£13m); electronic components £6m (£7m); industrial apparatus £8m (£12m); distribution and trading £5m (£7m); less other activities losses £4m (£5m).

The order book rose to £11.9bn, an increase of 12 per cent since the March year end. Orders within GEC Marconi, the defence subsidiary, were 7 per cent higher at £4.9bn.

Privately-funded research and development, including the company's share in joint ventures, was 12 per cent lower at £184m. Capital expenditure was 30 per cent lower at £67m.

National Express offer twice subscribed

By Richard Tomkins, Transport Correspondent

THE OFFER for sale of shares in National Express, the biggest scheduled coach service operator in the UK, was more than twice subscribed, it was announced yesterday.

This means only applications for 250 shares will be met in full. Others will be scaled down – in the case of the largest ones, to a third or less of the number of shares requested.

The total number of shares sold in the flotation was 27.8m, of which 75 per cent was placed at 165p per share with institutional investors and the remainder offered for sale.

Valid applications were received for 14.7m shares, but with only 6.9m available in the public offering, the result is a heavy scaling-down.

The allocation was as follows: for 250 shares – in full; for 500 shares – 75 per cent; between 600 and 1,000 – 65 per cent; between 1,500 and 5,000 – 50 per cent; 6,000 to 10,000 – 45 per cent; 15,000 to 100,000 – 40 per cent; 120,000 to 150,000 – 34 per cent; 180,000 to 500,000 – 33 per cent; for more than 500,000 the allocation will be about 29 per cent.

Advisers to National Express will be hoping that large investors left short of stock because of the rationing will top up in the after-market, so leading to a premium when dealings begin on December 10.

Morgan Grenfell is sponsor to the issue, with Smith New Court as broker.

NEWS DIGEST

4% advance lifts Alba to £1.2m

DESPITE the recession Alba produced satisfactory results in the home market and, overall, lifted interim pre-tax profit by nearly 4 per cent.

For the six months ended September 30 1992 the profit came to £1.2m (£1.16m). Turnover fell almost 9 per cent to £45.1m (£49.5m). Earnings per share were again 1.82p and the interim dividend is held at 1p.

The group makes audio, television and domestic appliances under the Alba, Bush and Hinari brand names, and they were achieving substantial market share, said Mr John Harris, the chairman.

London & Provincial £4.37m in the red

London & Provincial Shop Centres (Holdings), the main subsidiary of Randsworth Acquisition, which is in administrative receivership, announced a pre-tax loss for the year to end-June of £4.37m, against a profit of £907,000 last year.

The result includes an exceptional cost of £2.4m (nil) relating to the write-off of a loan to Randsworth, and a £254,000 provision for the fall in value of investment properties.

There was a tax charge of £1.27m (£567,000 credit) because of an underprovision from a prior period, after which the retained loss for the year was £5.64m (£1.47m profit).

Losses per share came out at 34.7p (9.1p earnings).

Substantial cut in Quiligotti losses

Quiligotti, which makes and installs terrazzo and other specialised industrial flooring, made substantial inroads into its losses in the half year ended September 30.

Although turnover fell £1.58m to £8.45m, pre-tax losses declined from £646,000 to £228,000. The cost reduction programme took £80,000 (£202,000) in exceptional charges. Losses per share were 0.33p (2.38p).

Slough Ests sells park for £62.5m

Slough Estates has sold Suttons Business Park in Reading to Standard Life Assurance for £62.5m. The 55-acre park contains buildings totalling 780,000 square feet.

TV-am starts asset repayment with 40p

TV-am, which has lost its breakfast-time licence, is to start repaying assets to shareholders through a substantial dividend.

On December 29 it will pay a second interim of 40p per share, at a cost of £26.7m, excluding associated ACT of £8.9m, from distributable reserves.

Results for 1992 should be announced in February and the directors intend to recommend a final dividend. No ultimate decision will be taken on the future of TV-am, in its much reduced form, until then, and possibly not for some time thereafter.

Assuming no further investment opportunities have arisen, the directors expect to recommend a liquidation or distribution of the assets.

The Stock Exchange will suspend the USM quote unless the company identifies a new core business to shareholders by the end of the year. However, the company will seek cancellation of the listing on January 4 so that dealings can take place under Rule 535(2).

Dry dock effect lowers LOF to £1m

Loss of hire while London Spirit was in dry dock in Singapore was behind the profits decline to $1m (£540,000) at London & Overseas Freighters in the six months to September 30.

Announcing the 19.5 per cent fall from a previous $1.24m the tanker company pointed out that these results related to the period before the change in domicile.

Under a scheme of arrangement a new vehicle, London & Overseas Freighters was recently re-established in Bermuda. It was also expanded to include Scoresby, a fellow company in the Kulukundis family stable.

In the six months under review net freights and hire income was little changed at $5.8m ($5.77m) and vessels' operating costs rose to $2.8m ($2.44m). Provision for deferred repairs took $365,000 ($279,000).

Earnings per share translated to 4.3p (5.89p).

Spring Ram has 94.35% of Stag

The recommended offer by Spring Ram Corporation to acquire Stag Furniture has been declared unconditional in all respects.

Spring Ram can now speak for 94.35 per cent of the Stag capital and will leave the offer open for acceptance until further notice.

Rationalisation costs leave Caffyns lower

Caffyns, the south-east motor dealer, improved its operating profit in the half year ended September 30 1992, but saw its pre-tax profit fall substantially.

It dropped from £297,000 to £102,000 after charging £94,000 for branch rationalisation, whereas credits of £395,000 were taken in last time. Turnover was lower at £61.5m (£68.8m).

Losses per share were 0.4p (earnings 5.5p). The interim dividend is again 5p.

Rowlinson edges ahead to £515,000

Rowlinson Securities, the property group, showed a small improvement in pre-tax profits, from £503,000 to £515,000, in the six months to end-September.

Gross rental income was £1.68m (£1.62m) and sales by the development and contracting divisions jumped to £2.76m (£1.41m), but operating profit fell to £1.4m (£1.47m). Finance charges, however, were reduced to £882,000 (£971,000).

Earnings per share were 2.76p (2.7p) and the interim dividend is again 0.24p.

Reduced losses for Harrison Industries

The enlarged Harrison Industries group, specialist engineer, reduced its pre-tax losses from a pro forma £594,000 to £455,000 in the six months ended September 30 1992.

These are the first interim results since the enlarged group was formed by the takeover of Harrison by Antares Group and since the subsequent management and name changes.

Turnover was £25.8m (£26.1m) and losses per share were 0.3p (0.48p).

Notice to the Holders of Convertible Bonds of

Nippon Oil Company, Limited

1. U.S.$50,000,000 5 ½ per cent. Convertible Bonds due 1998 (the "No.1 Bonds")
2. U.S.$50,000,000 3 ¼ per cent. Convertible Bonds due 1999 (the "No.2 Bonds")
3. U.S.$70,000,000 3 per cent. Convertible Bonds due 2000 (the "No.3 Bonds")

Pursuant to Condition 6(L) of each of the Terms and Conditions of the Bonds of (i) the Trust Deed dated 22nd March, 1983 concerning the No.1 Bonds, (ii) the Trust Deed dated 8th March, 1984 concerning the No.2 Bonds and (iii) the Trust Deed dated 7th May, 1985 concerning the No.3 Bonds, notice is hereby given as follows:

Nippon Oil Company, Limited has made an issuance of Yen 50 billion convertible bonds due 2000 on 25th November, 1992 at the initial conversion price of 626 Japanese Yen per share which is less than the current market price per share of 653.90 Japanese Yen on 25th November, 1992 calculated as provided in Condition 6 of each of the Terms and Conditions of the Bonds of each Trust Deed.

As a result of such issuance and pursuant to condition 6 of each of the Terms and Conditions of the Bonds, the conversion prices of the respective Bonds have been adjusted effective as from 25th November, 1992 (Japan time) as follows:

(i) Conversion Price of the No.1 Bonds:	Before adjustment:	834.60 Japanese Yen
	After adjustment:	832.40 Japanese Yen
(ii) Conversion Price of the No.2 Bonds:	Before adjustment:	910.80 Japanese Yen
	After adjustment:	908.40 Japanese Yen
(iii) Conversion Price of the No.3 Bonds:	Before adjustment:	839.10 Japanese Yen
	After adjustment:	836.90 Japanese Yen

NIPPON OIL COMPANY, LIMITED
3-12, Nishi-Shinbashi 1-chome, Minato-ku, Tokyo, Japan

December 3, 1992

COMMODITIES AND AGRICULTURE

Disillusioned traders push oil prices still lower

By Deborah Hargreaves

CONFIDENCE IN the oil market weakened further yesterday when prices for North Sea Brent crude oil for delivery in January slipped by another 20 cents to $18.30 a barrel.

World oil prices have lost a dollar a barrel in just over a week as traders have become disillusioned with the ability of the Organisation of Petroleum Exporting Countries to support the oil price.

"The market is not convinced by last week's Opec agreement. There have been no signs that Saudi Arabia and Iran will actually cut back their production," said Mr Peter Bogin, at Cambridge Energy Research Associates.

Mr Alirio Parra, Venezuela's energy minister and Opec's current president, said in comments to the Reuter news agency yesterday that he could not understand why the market had weakened following the agreement to cutback output to 24.58m barrels a day from 25m b/d.

He said it was a realistic agreement and had the full support of all members.

But weak prices for oil products have also been dragging the crude market downwards. Europe remains well-stocked with products such as gasoil for which prices have dropped by $5 to $10 a tonne over the past month to $174 a tonne.

The weather in Europe and North America remains warmer than forecast leading traders to fear that stocks of oil will not be run down very quickly and could further depress prices early next year.

Protection planned for banana suppliers

By David Dodwell, World Trade Editor

THE UK and France are planning "intermediate measures" to protect traditional banana suppliers, in case disagreement over reform of the European Community's banana import regime prevents settlement by the start of 1993, Mr John Gummer, Britain's farm minister, said yesterday.

Addressing a House of Commons Agriculture Committee, Mr Gummer defended a recent British move to break deadlock over the shape of reform by suggesting tariff-based options. At present, traditional suppliers are protected by quota arrangements: "We are not tied to a method: we are tied to an end," he said.

He emphasised that the UK was pressing hard for an "imminent" breakthrough, but at the same time expressed concern at the lack of progress towards settlement of differences between countries like Germany, Belgium and Denmark, which import cheaper "dollar" bananas from Latin America, and the UK, France, Spain and Portugal, which reserve their markets for more expensive suppliers (mainly in the Caribbean) as part of aid obligations under the Lomé convention.

Controversy has arisen because when the single market is set up on January 1 next year, cheap dollar bananas will be able to flow freely across the EC, putting the plight of traditional suppliers in jeopardy. Mr Gummer warned that whether the new regime were tariff-based or quota-based, "countries [like Germany or Belgium] that never previously had to bear any burden now realise this is a community burden" which will inevitably have an impact on banana prices.

"Everybody has an interest in getting a solution by January 1. If we don't then there will be five EC countries insisting on interim arrangements. . . Do we want the community, on the very first day of the single market, to be rent asunder by political obligations?" he warned.

Meanwhile yesterday the European Commission approved a French request effectively halting further imports this year of bananas from Ivory Coast and Cameroon, which exceeded their quotas by 16.4 per cent and 10 per cent respectively in November, according to a French official.

Bad weather dampens US maize hopes

By Laurie Morse in Chicago

COLD, WET weather and early snow storms ended the maize harvest prematurely in some parts of the upper midwest last week, and set market bulls in Chicago talking about quality problems that could reduce the size of the bumper crop.

However, state agronomists and crop analysts say the quality problems are localised. The US maize crop is so large, and the quality of harvested grain is so high, that there is little chance that the US Department of Agriculture's estimate of a 9.33bn bushel crop will be revised downward by more than a few million bushels.

The USDA next reports preliminary crop estimates on December 10. Final numbers on the US maize harvest will be released in January.

Still, high moisture content in much of the nation's maize crop will require costly drying and special handling, trimming grower's profits. And in scattered areas, high moisture and a short growing season have lowered test weights and generated mould growth – a condition that leaves the maize unfit for export or livestock consumption.

"What we have is an abundance of good quality corn [maize] nationally, and an abundance of low quality corn in small areas," says Mr David Miller, an Illinois-based American Farm Bureau analyst.

The US maize harvest is usually complete by the end of November. However, about 7m bushels, or about 20 per cent of the crop, is still standing in the fields in Iowa and Illinois, the biggest maize-producing states. About 30 per cent of Indiana's maize crop is still in the field. Most of that grain will eventually be harvested, although farmers might wait until midwinter freezes make the muddy fields safe for combines. In the meantime, the grain will be subject moisture and mold.

The situation in northern states is more severe. Only half of Wisconsin's maize crop has been cut, and in Michigan, three quarters of the acreage is awaiting harvest. Those states were projected to harvest about 500m bushels, with more than half grown for on-farm livestock feed.

Much of that crop will not be harvested. Green, or underdeveloped, kernels and mold have reduced the value of the maize there. County officials report that farmers are plowing some fields under, or chopping the maize for silage. "Very little of our corn is intended to be abandoned, but a lot may end up that way," says a farm agent from Wisconsin's Sauk County.

More cuts in nickel production

By Kenneth Gooding, Mining Correspondent

ANOTHER NICKEL producer, Western Mining Corporation of Australia, announced production cuts yesterday. However, analysts suggested the cuts would make no difference to present low prices and depressed market sentiment.

Suggestions that there was another boat carrying more than 10,000 tonnes of nickel from the Commonwealth of Independent States waiting outside Rotterdam because there was not enough equipment yet available to cut it, were also weighing heavily on the market.

Analysts estimated that WMC's moves, which include the closure of its Foster mine in Western Australia, would cut about 2,000 tonnes from its nickel output in the year to the end of June.

Mr Wiktor Bielski, analyst at Carr Kitcat & Aitken, part of the Banque Indosuez Group, said London Metal Exchange nickel stocks, at nearly 64,000 tonnes, represented 10 per cent of western world annual consumption and "it needs a big increase in demand to have an impact on that. But demand is still very weak, particularly in Japan."

There was no sign of a revival in demand for stainless steel, the biggest user of nickel, he pointed out. "And stainless steel scrap prices – a lead indicator for nickel – are not moving."

Mr Bielski suggested, however, that nickel prices should move to a level representing the average world-wide cost of production – about US$6,171 a tonne.

Nickel closed at $5,622.50 a tonne, up $35, on the LME yesterday. WMC said its nickel division, which produced nearly 49,000 tonnes of metal in the year to the end of last June, was operating at a loss. It aimed to push production costs below $5,510.

Analysts suggested WMC's announcement was mainly for the benefit of its domestic unions – contracts at its Kambalda nickel operations in Western Australia expire this month.

WMC also announced that its Chibougamau copper-gold mine in Canada would close if it was not sold by January. The company has already written off A$120m from the mine's value.

● Present low nickel prices are causing expansion projects to be deferred and this could result in production shortfalls from the mid-1990s, the Metals & Minerals Research Services consultancy group, warns in its latest study. The same is true for aluminium, MMRS adds.

Tin and lead prices have been depressed for even longer and this will hold back production capacity, "leading to sharp price increases in 1995-96 [for those metals], perhaps sooner for tin".

In contrast, the relatively stronger performance of copper and zinc prices may have stimulated enough expansion to ensure that supplies keep pace with demand.

MMRS predicts that between 1992 and 1997 nickel demand will rise by 22 per cent, aluminium's by 19.3 per cent, copper's by 18 per cent, zinc's by 17.4 per cent, lead's by 14.3 per cent and tin's by 12.5 per cent. This results in an aggregate rise for the LME-traded metals of 18 per cent or 3.4 per cent a year.

Metals Analysis Five Year Outlook. £625 from MMRS. 2 Henry Street, Bath, Avon BA1 1JT, England.

Argentina threatens Falklands' fish earnings

By Our Foreign Staff

THE FALKLAND Islands is facing a heavy financial loss as Taiwanese and Korean fishing companies prepare to follow Japanese companies' defection to Argentine fishing grounds.

The Argentine government recently decided to abandon its requirement that foreign fishing vessels register in an Argentine port and fly the national flag, while also cutting the price of licences issued to Japanese, Korean, Taiwanese and Spanish companies to fish for Illex squid in Argentine waters. The moves threaten to precipitate what Penguin News, the islands' newspaper, has described as the worst crisis to face the British crown colony since Argentina invaded it in 1982.

A large proportion of the Far Eastern companies that were offered licences by the Falklands government three weeks ago have elected not to take up their allocations, opting instead for the cheaper Argentine licences, which are unrestricted in terms of control and last two to three years.

Three of Japan's largest fishing companies, KSJ, OSA and CTC, were originally offered 70 licences by the Falklands government. They have indicated that they will take up just 12: resulting in a revenue loss of many millions of pounds to the Falklands.

Taiwanese and Korean companies are set to follow the Japanese and indications now are that the Falklands will suffer a revenue loss of about £16m a year, although pessimistic estimates put the figure much higher. Revenue from the sale of licences last year amounted to more than £30m, which comprised 64 per cent of the islands' annual revenue.

The islands' government also fears damage to stocks. It is understood that the Argentines believe squid live only one year and that what is not caught is lost. An official in Port Stanley said this showed they did not understand basic squid biology. "What is not fished is not lost," he said. "It survives to breed and produce next year's crop."

Producer resistance blamed for lack of progress at coffee pact talks

By David Blackwell

COFFEE PRODUCING countries have come under fire from consumers for being unprepared for the 10 days of talks on a new international agreement that ended in London on Tuesday with little progress.

"I am very disappointed," said Mr Myles Frechette, head of the US delegation, who was annoyed to have missed the Thanksgiving holiday only to find that "producers resisted talking about the issues".

"The whole process could be speeded up if we had constructive proposals from the producers," said Mr Robert van Schaagen of the Netherlands, chairman of the International Coffee Council.

The producers appear not to have taken on board the advice given by Mr Alexandre Beltrao, the International Coffee Organisation's chief executive, in the run-up to the latest talks. Coffee exporters would have to co-operate much more than in the past if a future international coffee agreement was to be successful, he said.

Delegates have given themselves more time by extending the deadline for negotiations for three months from December 31. The pact expires in September next year and at least six months will be needed for member countries to ratify any new agreement.

The ICO will meet again on January 25 when discussions will continue over so-called "selectivity", under which consumers will be able to choose the type of coffee that comes into the market.

This is an important issue. One of the main reasons for the collapse of the ICO export quota system and consequent halving of world prices was the fact that consumers were unable to exercise their increasing preference for mild and arabica coffees over robustas because of the system's rigidity.

Producers as ever put a cheerful face on the little progress made. Mr Valdemar Carneiro Leao, Brazilian delegate and producer spokesman, told the Reuter news agency there was a wide recognition that members were dealing with something different from the past. "But the whole mechanism of selectivity is becoming clearer and clearer," he said, adding that the meeting had "almost been in an exploratory mood".

Nevertheless, prolonged talks on selectivity have prevented any bilateral discussions of quota shares and price range targets.

One major hurdle was overcome in September with agreement on the principle of a universal quota system – under which exporting countries would send coffee to all destinations "without distinction between importing member and non-member countries". Now the momentum appears to have been lost.

There have been suggestions that one reason for the slowdown has been the change of administration in the US. But throughout the talks Mr Frechette has insisted there has been no change in the US position. "The US remains committed to finding an agreement that addresses the issues of the past," he said on Tuesday.

The coffee agreement was likely to be low on President Clinton's list of priorities, and was unlikely to be looked at until "late summer or early fall," said Mr Frechette.

Ms Judy Ganes, analyst with Merrill Lynch, said observers should forget about differences between producers and consumers and look at the potential areas of disagreement among the producers. "Think about what has really happened at these talks," she said. "They did not even get on to quota shares and price targets".

Mr Lawrence Eagles, analyst with GNI, the London brokers, pointed out that the biggest stumbling block at the latest talks had been the world's biggest producer. There was no doubt that the lack of progress was caused by intransigence, lack of preparation and a downgrading of the delegation by Brazil, he said yesterday. "This was seen as a clear sign that Brazil still does not know where it stands on coffee policy, and there is a general feeling that it will continue to block until it has a domestic structure in its industry."

Rubber talks end with little progress

By Kieran Cooke in Kuala Lumpur

A MEETING of producer and consumer members of the International Natural Rubber Organisation has ended here with little apparent progress being made on the issue of whether or not to negotiate a new international rubber agreement.

The present International Natural Rubber Agreement expires at the end of next year though Inro rules allow for an extension of two years, subject to agreement.

A communique issued at the end of the Inro council meeting here said that a decision on the renegotiation of Inra would be made before March next year. Producer countries say they want a new agreement which will reflect changes in the rubber trading system and safeguard the livelihoods of thousands of rubber farmers.

Natural rubber prices have fallen by about a third over the past five years. Consumer countries have argued that producer countries have not put forward any real negotiating proposals and say that until that is done then the present agreement should stay in place. The consumers also say that producers have not made attempts to improve quality in line with requested price increases.

However, there were some signs that the consumers had not closed the door completely on a new Inra. "I am rather optimistic that there will be a renegotiation of Inra", said Mr W. Bastiaanse of the Netherlands, chairman of the present INRO council. "Consumer countries have shown interest and want more information."

WORLD COMMODITIES PRICES

MARKET REPORT

A surge in PLATINUM prices in early Nymex trade lifted precious metal prices in London, dealers said. The Nymex January platinum contract pushed through resistance at $365 a troy ounce, taking spot metal above resistance at $364 before the it fell back on profit-taking. Dealers said they were looking for platinum to close above these levels to confirm an extension of the rally of the past two days into a new, higher range. The key upside target would then be $370, above which individual Japanese investors are expected to re-enter the market. A sharp rise in TIN prices dominated afternoon LME trading while other metals tried to stabilise after the wide movements of the past few days, dealers said. German consumer buying appeared to prompt short covering that took three-month through $5,800, triggering buy stops. "The trouble with tin is that it is very thin and once the buy stops are satisfied we could have an equally sharp setback (today)," one trader said.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Jan)		+ or -
Dubai	$16.40-6.45	-.175
Brent Blend (dated)	$18.40-8.45	-.225
Brent Blend (Jan)	$18.35-8.40	-.225
W.T.I (1 pm est)	$19.40-9.50	-.175
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$198-200	-4.5
Gas Oil	$176-177	-1
Heavy Fuel Oil	$80-81	-4
Naphtha	$175-176	+2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$336.45	+1.8
Silver (per troy oz)♣	377.0c	+1.5
Platinum (per troy oz)	$363.75	+1.1
Palladium (per troy oz)	$97.50	+2
Copper (US Producer)	101.0c	-0.5
Lead (US Producer)	33.5c	
Tin (Kuala Lumpur market)	14.07r	+0.05
Tin (New York)	289.5c	+7
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	112.49p	+0.78*
Sheep (live weight)†♣	78.31p	+4.37*
Pigs (live weight)†	84.30p	-3.75*
London daily sugar (raw)	$219.0w	+1
London daily sugar (white)	$252.4w	-0.1
Tate and Lyle export price	£251.0	-1.5
Barley (English feed)	£138.0z	
Maize (US No. 3 yellow)	£165.0	
Wheat (US Dark Northern)	Unq	
Rubber (Jan)♥	63.00p	-0.5
Rubber (Feb)♥	63.25p	-0.5
Rubber (KL RSS No 1 Jan)	224.0m	
Coconut oil (Philippines)§	$477.5y	-10
Palm Oil (Malaysian)§	$402.5	
Copra (Philippines)§	$317.5	
Soyabeans (US)	£169.0u	-3
Cotton "A" Index	53.70c	
Wooltops (64s Super)	427p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb r-ringgit/kg. y-Jan/Feb u-Jan. w-Dec/Jan. z-Jan/Mar. †Meat Commission average fatstock prices.* change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♣Sheep prices are now live weight prices.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Dec	704	705	701	698
Mar	725	734	726	726
May	740	749	750	743
Jul	756	765	763	759
Sep	780	781	781	774
Dec	802	802	796	796
Mar	822	823	823	819
May	837	837	836	833
Sep	869	869	868	861

Turnover: 3159 (4444) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec.1 787.75 (768.91) 10 day average for Dec 2 781.25 (781.49)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Jan	965	975	985	975
Mar	989	997	1006	993
May	997	999	1006	992
Jul	1002	1010	1013	1004
Sep	1015	1020	1021	
Nov	1030		1033	

Turnover: 3697 (3787) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec.1: Comp. daily 61.28 (59.40) 15 day average 56.10 (57.70)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	63.3	63.0	63.5	62.5
May	66.5	67.9	66.5	66.0

Turnover 42 (42) lots of 20 tonnes.

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Mar	189.60	188.40	189.00	
May	194.00		193.00	
White	Close	Previous	High/Low	
Mar	254.00	253.80	253.70	253.00
May	257.00	257.30	258.90	
Aug	263.40		262.70	
Oct	251.00	250.80	250.70	

Turnover: Raw 18 (4) lots of 50 tonnes. White 534 (757) Paris- White (FFr per tonne): Mar 1382.06 May 1415.08

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jan	18.40	18.49	18.55	18.29
Feb	18.41	18.48	18.52	18.30
Mar	18.40	18.48	18.50	18.30
Apr	18.38	18.46	18.43	18.30
May	18.35	18.44	18.41	18.31
Jun	18.35	18.39	18.38	18.31
Aug	18.36	18.35	18.36	18.35
Sep	18.34	18 33	18.37	18.34
IPE Index	18.70	19.10		

Turnover 25592 (44560)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Dec	172.25	173.50	173.00	171.00
Jan	174.50	175.50	175.00	173.00
Feb	175.50	176.50	175.75	174.25
Mar	173.50	174.25	174.00	172.50
Apr	170 50	171.00	171.25	169.75
May	168.75	169.75	169.00	168.00
Jun	167.75	167.75	168.25	167.50
Jul	169.25	169.75	169.50	168.75
Aug	171.00	171.00	170.25	

Turnover 17072 (24149) lots of 100 tonnes

WOOL
The firmer tendency in Australian wool prices came to a halt this week. Despite lower offerings at the three selling centres, demand in the middle Merino Categories was insufficient to maintain firmness fully, quite apart from pushing prices into higher ground. Business has in general shown a modest improvement as the price rise did proceed, and early ideas now are that buyers are more cautious again. Buying never became fully confident, with short-term needs only being covered The Australian Wool Corporation's market indicator yesterday was at 539 cents a kg.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Dec	148 00	152.00	

Turnover 0 (250) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Dec	1272	1285	1283	1272
Jan	1260	1275	1265	1250
Apr	1245	1260	1250	1245
Jul	1120	1124	1120	
Oct	1310		1310	
BFI	1324	1322		

Turnover 122 (269)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Jan	134.15	134.90	134.15	133.50
Mar	136.15	137.25	136 25	135.65
May	138.40	139.70	138 75	138.15
Nov	110.50		110 50	110.50
Barley	Close	Previous	High/Low	
Jan	133.65	135.10	133 65	133.05
Mar	135.75	136.75	136.20	135 50

Turnover: Wheat 522 (354), Barley 414 (60). Turnover lots of 100 Tonnes.

PIGS – London FOX			(Cash Settlement) p/kg
	Close	Previous	High/Low
Jan	105 00	105 5	104 00

Turnover:1 (3) lots of 3,250 kg

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 27,875 lots	
Cash	1188-89	1197-98		1199.5-200		
3 months	1211-12	1219.5-20	1222/1210	1220-20.5	1215-16	183,940 lots
Copper, Grade A (£ per tonne)					Total daily turnover 29,658 lots	
Cash	1400-01	1420-21	1400.5/1400	1399.5-400		
3 months	1423-24	1445-46	1432/1424	1424.5-25	1427-28	154,766 lots
Lead (£ per tonne)					Total daily turnover 3,651 lots	
Cash	295.5-96.5	303.5-04.5	298/294	293-94		
3 months	305.5-06	314.5-5.0	310/302.5	303-03.5	307-08	24,172 lots
Nickel ($ per tonne)					Total daily turnover 7,759 lots	
Cash	5545-50	5505-15	5576	5576-78		
3 months	5620-25	5580-90	5700/5480	5650-55	5660-65	39,651 lots
Tin ($ per tonne)					Total daily turnover 1,670 lots	
Cash	5805-15	5660-70		5675-80		
3 months	5860-70	5725-35	5900/5740	5730-31	5900-10	10,256 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 16,583 lots	
Cash	1058-60	1080-82	1048/1047.5	1048-49		
3 months	1077-78	1098-99	1090/1068	1067-68	1084-85	74,289 lots

LME Closing £/$ rate:
SPOT: 1.5485 3 months: 1.5366 6 months: 1.5250 9 months: 1.5174

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	336.30-336.60	
Opening	335.00-335.40	
Morning fix	335.10	217.287
Afternoon fix	335.65	217.038
Day's high	336.50-336.70	
Day's low	334.90-335.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	1.91	6 months	2.28
2 months	1.95	12 months	2.60
3 months	2.00		

Silver fix	p/troy oz	US cts equiv
Spot	243.35	375.75
3 months	247.60	379.30
6 months	251.70	382.95
12 months	259 20	390.90

GOLD COINS	$ price	£ equivalent
Krugerrand	355.00-338.00	217.00-219.00
Maple leaf	345.85-348.10	-
New Sovereign	78.50-81.50	51.00-53.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Apr	Jan	Apr
1150	58	78	6	13
1175	39	61	12	20
1200	25	46	23	30
Copper (Grade A)	Calls		Puts	
2100	86	107	6	16
2150	49	73	19	31
2200	23	46	43	54
Coffee	Jan	Mar	Jan	Mar
900	85	112	1	13
950	43	77	9	28
1000	15	49	31	50
Cocoa	Mar	May	Mar	May
700	55	78	21	28
725	41	63	32	38
750	31	51	47	51
Brent Crude	Jan	Feb	Jan	Feb
1800	48	30	12	30
1850	16	40	28	53
1900	4	26	67	77

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Dec	335.9	335.1	336.9	335.5
Jan	336.5	335.7	0	0
Feb	336.9	336.1	337.7	336.4
Apr	338.2	337.4	339.0	337.8
Jun	339.8	339.0	340.4	339.6
Aug	341.6	340.8	342.2	341.7
Oct	343.5	342.7	0	0
Dec	345.4	344.6	346.1	345.1
Feb	347.7	346.9	348.3	348.3

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jan	364.1	362.2	366.5	363.5
Apr	362.3	360.6	364.0	361.5
Jul	361.3	359.6	362.5	361.0
Oct	363.3	361.6	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Dec	373.3	373.0	375.5	373.0
Jan	374.3	374.1	374.0	374.0
Feb	376.2	376.0	0	0
Mar	377.2	377.0	379.5	377.0
May	380.1	379.9	382.0	380.0
Jul	382.8	382.6	384.5	383.5
Sep	385.7	385.5	0	0
Dec	390.4	390.2	392.0	390.5
Jan	391.7	391.5	0	0
Mar	395.7	395.5	398.0	398.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	97.00	96.55	97.30	96.55
Jan	97.40	96.95	97.55	97.00
Feb	97.90	97.45	0	0
Mar	98.30	97.85	98.85	97.70
Apr	98.70	98.25	0	0
May	99.20	98.75	99.45	98.80
Jun	99.50	99.10	0	0
Jul	99.90	99.50	100.10	99.50

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jan	19.49	19.51	19.54	19.38
Feb	19.53	19.54	19.58	19.41
Mar	19.56	19.58	19.61	19.45
Apr	19.61	19 61	19.63	19.53
May	19.60	19.62	19.64	19.55
Jun	19.63	19.63	19.65	19.56
Jul	19.65	19.64	19.66	19.57
Aug	19.64	19.66	19.64	19.62
Sep	19.66	19.68	19.57	19.60
Oct	19.67	19.67	19.67	19.67

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jan	56.05	55.84	56.35	55.70
Feb	56.55	56.47	56.90	56.25
Mar	56.00	55.98	56.15	55.80
Apr	55.00	54.94	55.00	54.70
May	53.90	53.87	54.00	53.60
Jun	53.55	53.42	53.60	53.40
Jul	53.80	53.67	53.85	53.60
Aug	54.10	54.20	0	0
Sep	55.25	55.35	55.40	55.40
Oct	56.50	56.30	56.50	55.40

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Dec	987	982	990	971
Mar	1027	1019	1032	1007
May	1054	1045	1057	1039
Jul	1077	1070	1076	1070
Sep	1099	1090	1098	1087
Dec	1134	1120	0	0
Mar	1169	1159	0	0
May	1191	1179	0	0
Jul	1212	1203	0	0
Sep	1233	1223	1220	1215

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	74.25	74.65	76.30	73.90
Mar	75.55	75.70	77.60	75.20
May	78.70	78.50	80.60	78.35
Jul	80.10	80.00	81.90	79.25
Sep	81.75	81.50	83.25	81.50
Dec	83.90	83.65	86.00	84.20
Mar	86.00	85.50	87.00	86.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	8.52	8.48	8.53	8.46
May	8.65	8.65	8.68	8.62
Jul	8.73	8.73	8.76	8.70
Oct	8.74	8.76	8.77	8.72
Mar	8.81	8.83	0	0
May	8.86	8.90	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Dec	58.43	58.52	58.46	57.65
Mar	58.01	58.10	58.35	57.55
May	59.10	59.18	59.40	58.68
Jul	59.95	59.73	60.15	59.45
Oct	60.60	60.20	60.40	59.70
Dec	60.15	60.20	60.20	59.65
Mar	60.70	60.60	60.60	59.70
May	61.25	61.10	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jan	99.30	98.15	99.50	98.00
Mar	102.20	100.50	102.60	98.00
May	103.00	102.00	103.00	98.70
Jul	102.25	101.05	102.25	98.25
Sep	101.60	100.30	102.00	100.00
Nov	101.25	100.05	100.00	100.00
Jan	101.25	100.05	0	0
Mar	101.25	100.05	0	0
May	101.25	100.05	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)			
Dec.2	Dec.1	mnth ago	yr ago
1674.1	1665.0	1658.1	1642.3

DOW JONES (Base: Dec. 31 1974 = 100)				
	Dec.1	Nov.30	mnth ago	yr ago
Spot	120.48	120.22	113.93	115.28
Futures	120.22	120.08	116.18	122.91

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jan	562/4	559/6	563/2	558/0
Mar	566/4	564/4	567/4	562/4
May	572/0	569/4	572/4	568/4
Jul	577/0	575/2	578/0	574/4
Aug	578/2	577/0	579/4	577/0
Sep	577/2	576/0	578/0	576/4
Nov	582/6	582/2	584/0	580/6
Jan	590/6	590/6	0	0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Dec	20.37	20.34	20.56	20.32
Jan	20.49	20.44	20.68	20.41
Mar	20.68	20.64	20.87	20.62
May	20.80	20.76	20.98	20.74
Jul	20.87	20.83	21.10	20.80
Aug	20.85	20.85	21.05	20.85
Sep	20.87	20.86	21.10	20.87
Oct	20.80	20.81	21.05	20.80

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Dec	178.3	178.2	179.1	177.1
Jan	178.9	179.1	179.1	177.8
Mar	179.8	179.4	179.7	178.6
May	181.1	180.9	181.2	180.5
Jul	183.4	183.2	183.5	182.8
Aug	184.2	184.1	184.5	184.0
Sep	185.2	185.1	185.3	185.1
Oct	186.5	187.0	187.0	186.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	210/2	210/6	212/2	210/0
Mar	219/6	219/6	221/4	219/2
May	227/4	227/4	229/0	227/0
Jul	232/6	232/6	234/4	232/2
Sep	237/4	237/2	238/2	236/6
Dec	242/6	243/0	243/6	242/4
Mar	249/6	249/6	250/2	249/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	373/0	375/2	374/0	372/4
Mar	362/4	365/2	364/0	362/0
May	347/0	349/0	348/4	345/4
Jul	322/2	324/6	324/6	322/0
Sep	328/4	330/4	330/0	328/4
Dec	340/0	340/6	340/4	340/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	76.425	76.525	76.950	76.300
Feb	73.875	73.875	74.300	73.700
Apr	74.175	74.125	74.550	74.050
Jun	71.000	70.825	71.275	70.825
Aug	69.375	69.275	69.750	69.250
Oct	69.950	69.950	70.300	69.850
Dec	70.050	70.150	70.400	70.050

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Dec	44.125	45.000	44.900	44.100
Feb	43.050	44.025	44.050	43.000
Apr	41.025	41.550	41.700	40.950
Jun	45.250	45.975	46.000	45.200
Jul	44.900	45.625	45.550	44.900
Aug	43.800	44.350	44.300	43.800
Oct	40.900	41.300	40.900	40.600
Dec	43.100	43.400	43.200	43.000

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	38.625	39.575	39.800	38.575
Mar	38.875	38.825	40.000	38.825
May	40.150	41.100	41.200	40.025
Jul	40.800	41.750	41.650	40.650
Aug	39.625	40.700	40.550	39.525

Advance reversed on modest selling

By Terry Byland, UK Stock Market Editor

THE FOUR day run of gains in the London stock market was abruptly reversed yesterday. Although traders maintained that selling pressure was light, the FT-SE Index listed stocks reacted sharply to a batch of discouraging developments. At least two leading securities houses were buyers of the non-Footsie stocks, however and selected demand from the US was reported in the store sector.

At the close, the FT-SE Index was down 27.9 t 2,764.1, a shade above the day's low but lacking support after Wall Street had come in with an early loss of 12 point on the Dow Average. London was 17 points off when its day started and could not sustain an attempt to rally during the first hour of trading. But the FT-SE Mid 250 Index, which has been lagging the main market, added 6.3 yesterday and trading volume in non-Footsie stocks well exceeded that in Footsie listed shares.

Among factors negative for the stock market yesterday, strategists pointed to criticisms of the European exchange rate mechanism from Mr Helmut Schlesinger, president of the Bundesbank. Although sterling remains outside the ERM, currency distress is unhelpful for international investors in equities. However, a US securities house commented that forced devaluations and cuts in national interest rates would help the re-stimulation of the global economy on which the UK stock market is pinning its faith.

Weakness in the Hong Kong markes and in global oil prices continued to unsettle some UK stocks and there was a mixed response to a batch of trading statements from blue chip names.

Firmness in sterling together with a lower dollar restrained the international stocks.

The premium on the December Footsie futures contract, which had been a positive force for equities, was reined in yesterday, when the contract fell back below the 2,800 mark briefly gained in the previous session.

There was a modest sell-off in shares in the afternoon when the market also took aboard warnings against over-confidence on economic growth from both GATT and the European Commission. However, the selling bout was soon over, although share prices made little recovery.

Seaq reported trading volume remained high at 624.2m shares against 631.1m, with yesterday's total boosted by good volume in the smaller stocks. Tuesday's retail business was worth £1.2bn, re-emphasising the weight of investment cash now moving through the stock market.

Trading results from Bass, the brewing group, were not well-received in the stock market but Granada, the entertainments company, rose sharply on its profits statement. Traders noted that neither factor appeared to shift the market's overall view of the consumer sectors, which remained relatively steady yesterday.

Market strategists appeared alarmed by the shakeout which was regarded as only to be expected after the recent advance. Some believe that confidence could be tested after Christmas if the French and German economies remain sluggish. However, equity chartists believe that the Footsie could be tested down to the mid-2,600 range without abandoning its currently bullish stance.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	1	485	-15
ASDA Group	20,000	52½	
Abbey National	1,400	378	
Albert Fisher	6,800	56	+1
Allied-Lyons	997	641	-2
Amstrad	5,600	26	
Anglian Water	583	453	-2
Argos	271	283	-1
Argyll Group	2,600	361	+3
Arjo Wiggins	1,400	152	-2
Ass. Brit. Foods	251	456	+5
Ass. Brit. Ports	240	324	+3
BAA	778	776	
BAT Inds.	1,600	984	-5
BET	1,800	88	-3
BICC	2,800	389	+6
BOC	1,900	758	-15
BP	4,500	233½	-3½
BPB Inds.	699	188	+2
BT	3,700	414	-4
BT New	3,500	310½	-4
BTR	5,300	517½	
Bank of Scotland	2,400	117	+1
Barclays	9,500	385	+3
Bass	4,400	585	-15
Berisford Int.	418	18½	-½
Blue Circle	1,600	178	+1
Booker	2,700	370	+26
Boots	2,700	525	+1
Bowater	922	483	-1
Brit. Aerospace	1,400	128	-4
British Airways	3,400	276	-1½
British Gas	3,700	279	-1
British Land	713	188	-1
British Steel	2,300	57	-1
Bunzl	249	108	-1
Burmah Castrol	1,000	667	+2
Burton	5,500	61½	-2½
Cable & Wire.	942	643	-16
Cadbury Schweppes	3,000	468	+5
Calor Group	229	220	-4
Carlton Comms.	511	723	-6
Coats Viyella	3,100	218	+3
Comm. Union	772	607	-15
Cookson	2,200	171	-1
Courtaulds	1,000	539	-1
Dalgety	639	471	
De La Rue	628	857	-5
Dixons	1,800	238	-7
Eastern Elect.	1,000	387	+1
East Midland Elect.	1,000	389	+5
Eng China Clays	587	452	-8
Enterprise Oil	767	454	-6
Eurotunnel Units	281	345	-10
FKI	5,800	97	
Fisons	1,400	213	-6
Forte	[illegible]	[illegible]	[illegible]
Gen Accident	[illegible]	[illegible]	[illegible]
General Elect.	[illegible]	[illegible]	[illegible]
Glaxo	[illegible]	[illegible]	[illegible]
Glynwed Int.	[illegible]	[illegible]	[illegible]
Granada	[illegible]	[illegible]	[illegible]
Grand Met.	[illegible]	[illegible]	[illegible]
GUS A	[illegible]	[illegible]	[illegible]
GRE	[illegible]	[illegible]	[illegible]
GKN	[illegible]	[illegible]	[illegible]
Guinness	2,400	643	-15
HSBC (75p shs)	22,000	480	-22
Hammerson 'A'	165	236	-8
Hanson	3,800	236½	-1
Hanson Warrants	3,700	18	-⅛
Harrisons Crosfield	738	143	-1
Hillsdown	2,400	121	+4
IMI	695	242	+3
ICI	2,500	1027	+14
Inchcape	1,600	485	-7
Kingfisher	1,000	582	-3
Kwik Save	1,300	726	+½
Ladbroke	3,500	189	-5
Land Securities	1,300	417	-2
Laporte	94	613	-3
Legal & General	1,400	403	-8
Lloyds Abbey	959	389	-1
Lloyds Bank	1,600	494	-5
LASMO	3,200	165	-8
London Elect.	546	421	-1
Lonrho	716	88	-3
Lucas	4,600	134	+10
MB Caradon	828	285	+1
MEPC	1,700	332	-5
Manweb	383	471	-2
Marks & Spencer	5,200	336	-4
Midlands Elect.	295	445	+4
NFC	455	276	-2
Natwest Bank	3,900	380	-4
National Power	1,300	270½	
Next	3,800	138	+4
North West Water	1,200	472	-1
Northern Elect.	775	446	+5
[illegible]	[illegible]	[illegible]	[illegible]
RTZ	2,300	[illegible]	-13
Racal	5,600	152	-2
Rank Org.	716	853	+1
Reckitt & Colman	456	629	-7
Redland	1,400	363	+2
Reed Intl.	2,300	601	-4
Rentokil	769	209	
Reuters	585	1351	-3
Rolls Royce	4,700	104	+2
Rothmans	622	625	-8½
Ryl Bk Scotland	7,300	181½	-6½
Royal Insurance	1,100	265	-12
Saatchi	30	145	
Sainsbury	1,800	534	-3
Scottish & New	605	413	-8
Scot. Hydro-Elect	395	237	+1
Scottish Power	805	225	+1
Sears	8,700	96	+4
Sedgwick	1,000	144	
Seeboard	208	438	+3
Severn Trent Water	1,700	444	
Shell Transport	1,100	548	-8
Siebe	3,300	380	+5
Slough Ests	845	142	+5
Smith (W.H.) A	274	488	-5
Smith & Nephew	4,300	184	-4
SmKl Beecham	1,600	524	-10
SmKl Beecham Uts	774	461	-7
Smiths Inds.	931	336	+1
Southern Elect.	269	420	+3
South Wales Elect.	318	498	+3
South West Water	649	478	
South West. Elect.	382	433	+1
Southern Water	476	447	+1
[illegible]	[illegible]	[illegible]	[illegible]
Tesco	3,000	254	+1
Thames Water	655	479	+3
Thorn EMI	458	827	-3
Tomkins	2,200	230	-2
Trafalgar House	2,100	89	-3
Unigate	388	295	
Unilever	1,200	1074	-5
United Biscuits	1,000	352	+2
Utd. Newspapers	95	486	-1
Vodafone	2,800	397	-8
Warburg (SG)	235	496	+10
Wellcome	1,800	1042	-20
Welsh Water	49	511	+3
Wessex Water	318	554	-1
Whitbread 'A'	350	454	+1
Williams Hldgs.	1,200	311	-4
Willis Corroon	109	178	-1
Wimpey	179	105	
Wolseley	873	505	-3
Yorkshire Elect.	435	486	+2
Yorkshire Water	616	502	+1

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Account Dealing Dates

*First Dealings:		
Nov 16	Nov 30	Dec 14
Option Declarations:		
Nov 26	Dec 10	Dec 30
Last Dealings:		
Nov 27	Dec 11	Dec 31
Account Day:		
Dec 7	Dec 21	Jan 11

*New time dealings may take place from 8.30am two business days earlier.

Granada in active session

RESULTS well ahead of even the most optimistic forecasts sent shares in Granada ahead, stimulating good, two-way business as the recent surge in the shares opened the way for some profit-taking. The shares had jumped up 30 at one stage in before falling back, one line of 2.7m being sold into the market at 330p and placed immediately at 332p, in late trading. They closed at 334p, a rise of 25 on the day. Profit forecasts for the current year were upgraded to a range of £150m to £165m. Smith New Court was one of a number of houses to turn positive on the stock.

The results, mostly achieved through rationalisation and efficiency measures, again raised questions over Granada's strategy in maintaining earnings growth. However, Mr Hamish Dickson at Hoare Govett, joint brokers to the group, said that acquisitions were not an urgent need and he predicted reputable profits growth over the next two years. Others were less sure. Mr Mark Finnie at County NatWest said: "We believe that the need for an acquisition to propel long-term earnings growth is a real one."

Possible targets touted in the market ranged from other television groups, which the Granada management is said to be acknowledging as a matter of "not if, but when", to catering companies. With a counter bid for Gardner Merchant, the Forte catering subsidiary, all but ruled out (an imminent announcement is expected that Forte has sold it to its management), Sutcliff Catering, owned by P&O, may be a target.

Tarmac alert

Housebuilder and building materials group Tarmac resumed its position as one of the market's favourite takeover plays. BTR, the conglomerate was widely tipped as a potential predator There was more intrigue for the market when Cazenove, the broking house was said to have been a keen buyer of Tarmac Cazenove is broker to BTR, but also to Tarmac.

The shares sped up 6 to 96p, after 97p on turnover of 12m, the heaviest single day's activity since late September.

Takeover stories have surrounded Tarmac for many months. Minorco, the overseas arm of the Harry Oppenheimer group of companies, was widely rumoured as a potential bidder for Tarmac earlier this year. Tarmac's building materials operations were seen as the star attraction. In the late 1980's Minorco launched an ultimately unsuccessful bid for Consolidated Gold Fields, the mining group.

More recently, however, the market has warmed to the acquisition by Tarmac of the previously government-owned Property Services Agency.

GEC displeases

The market gave a decided "thumbs-down" to GEC shares after the group delivered a 3 per cent increase in half-year profits and a 5.1 per cent rise in the interim dividend. Both figures were at the top end of the market range, but failed to please some of the super-optimists.

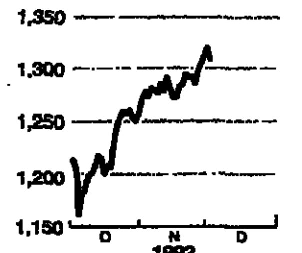
"The headline number was a shade below the figure the market was going for, but it was certainly not disappointing, nor was the dividend," said one specialist who believed the market had "simply got over-excited."

Analysts quietly trimmed estimates for full year profits from the £860m-plus pencilled in ahead of yesterday's figures to around £840m. GEC shares settled 9 off at 263p on disappointing turnover of 6.3m.

Dull figures from Bass coupled with a cautious statement sent the shares into retreat and the shares slipped 15 to 585p. The market had hoped for some positive news on the hotel and leisure sector, but the company remained reticent. Although the Holiday Inn division was said to be improving in a difficult market, discussions with Queens Moat Houses over extending the two groups' interests produced little comment from Bass management. Queens Moat shares slipped 1¼ to 44p. Analysts suggested that Bass was discussing potential deals with other, mostly US hotel groups, and that a deal over extending the Holiday Inn flag was still alive.

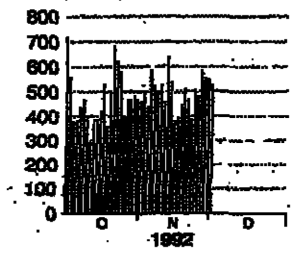
The cautious Bass comment sent shares in Scottish and Newcastle tumbling 8 to 413p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Prudential took its stake in Vaux, the hotel and brewery group, below 3 per cent. The shares shaved a penny to 206p. Whitbread Investment Company took its holding in Greene King to 6.5 per cent, the shares adding 2 to 470p.

There was further severe punishment for HSBC shares after the latest slide by shares on the Hong Kong market. HSBC plunged a further 22 to 480p in London yesterday with dealers highlighting the exceptionally high level of turnover in the stock – 22m shares – which they said indicated unusually large selling pressure. Standard Chartered closed 15 off at 529p. Barclays benefited from switching from HSBC and Standard, the shares moving up 6 to 388p on 9.5m traded.

Merchant banks with marketmaking activities rose sharply, with institutions aware that recent record performances by the equity market could well mean good profits for dealing firms. But there were hints that more job losses could be in the pipeline. SG Warburg settled 10 firmer at 496p and Kleinwort Benson rose the same amount to 399p.

The prospect of an avalanche of claims arising from the floods affecting the UK, hit the composite insurance stocks. Commercial Union fell 15 to 607p, General Accident 13 to 588p, Guardian Royal 6 to 177p and Royal 12 to 265p. Sun Alliance settled 10 down at 336p. A switch out of BOC, down 15 at 758p, and into ICI was said to be being advised by Smith New Court. ICI shares rose 14 to 1027p.

A weak US dollar depressed many drug stocks. Profit-taking also affected Wellcome leaving the shares 20 adrift at 1042p.

Reports that the ministry of defence had signed a memorandum of understanding with Kuwait for the UK to supply defence equipment caused a late run in GKN. The shares jumped 15 to 419p. The company is expected to be one of the main beneficiaries of such a deal through the supply of the Warrior and Piranha armoured vehicles.

One analyst speculated that such a deal may be worth as much as £750m to GKN. The availability of a sizeable line of stock was said to have been the reason for the early decline of P&O. The stock was later reported to have been been cleared but sentiment remained depressed by a sell recommendation from Yamaichi. The shares closed 6 off at 491p. US buying helped Tiphook bounce 30 to 305p.

Bid speculation returned to Lucas Industries with GEC being the new name among possible predators. The shares jumped 10 134p. BTR has also in recent weeks been mentioned as a possible bidder for Lucas.

US buying was reported in Rolls-Royce where the shares firmed 2 to 104p, in trade of 4.7m. FR Group were wanted and the shares jumped 6 to 200p. A positive recommendation from SG Warburg helped T&N add 9 to 147p, though the broker was said to be negative on Kwik-Fit which caused the shares to give up 8 to 94p.

Speculation that Vickers may soon win a tank order from the Middle East caused the shares to firm 5 to 89p.

Shares in Booker advanced 26 to 370p as James Capel was reported to be recommending the stock.

News of slightly disappointing new connection figures for November at Vodafone, the cellular phones group, were behind the 9 drop in Vodafone shares to 397p on turnover of 2.9m.

Telecoms specialists said the new "Lowcall" sales initiative, which promotes a new low rental tariff, had proved a disappointment with "Lowcall" subscribers of 16,500 said to have been made up of 8,500 brand new customers and 7,500 customers shifting to "Lowcall" from the existing Vodafone system.

MicroFocus continued their excellent recent performance, adding 50 more at 2658p while there was further discreet support for Scholes Group which moved up 9 to 119p. US buying of Sears helped the shares advance 4 to 96p with 9.8m traded.

MARKET REPORTERS:
Joel Kibazo,
Christopher Price,
Steve Thompson.

■ Other market statistics, Page 19

NEW HIGHS AND LOWS FOR 1992

[illegible]

FINANCIAL TIMES EQUITY INDICES

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Year ago	High	Low
Ordinary share	2087.8	2108.5	2089.9	2077.4	2058.0	1839.5	2149.7	1870.0
Ord. div. yield	4.43	4.41	4.44	4.47	4.52	5.01	5.34	4.26
Earning yld % full	6.07	6.03	6.08	6.12	6.18	7.45	[illegible]	[illegible]
P/E ratio net	21.26	21.21	21.24	20.90	20.69	16.87	[illegible]	[illegible]
P/E ratio nil	19.40	19.52	19.36	19.23	19.05	15.91	[illegible]	[illegible]
Gold Mines	70.1	71.1	70.4	69.5	66.7	168.1	160.6	63.0

[illegible]

Ordinary Share hourly changes	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
	2096.2	2098.2	2103.6	2102.6	2101.4	2100.5	2100.4	2098.8	2093.3	2105.6	2093.2

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Year ago
SEAQ Bargains	28,749	28,863	33,894	34,656	26,887	23,293
Equity Turnover(£m)†	-	1207.1	1165.5	1197.7	1281.7	926.62
Equity Bargains†	-	34,601	36,697	35,302	35,850	25,113
Shares traded (mil)†	-	534.2	550.4	562.0	589.2	403.6

† Excluding intra-market business and overseas turnover.

London report and latest Share Index Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

PROFIT-TAKING saw Footsie futures surrender most of the gains acquired over the last four sessions as turnover fell back to more modest levels, Joel Kibazo.

The opening trade in the December futures contract on the FT-SE was struck at 2,792. The contract then traded in a narrow range of 2,790 and 2,799 for the next few hours occasionally breaching the 2,800 level, though trading volumes were very light.

The fall in gilt prices following the gilt auction, along with early falls on Wall Street took their toll in mid-afternoon and the contract retreated sharply, falling to a day's low of 2,773 and pulling the underlying cash market lower.

December finished at 2,777, a decline of 30 on the previous session and around 9 points above its estimated fair value premium to cash of about 4. Turnover was just under 6,000 contracts.

Volumes in traded options continued to decline and reached a meagre 22,310 lots. Turnover in the FT-SE 100 option was a poor 6,658 contracts. Rolls-Royce was the most actively dealt stock option with a total of 2,642 lots, with the March 160 calls and the December 100 puts equally busy. This was followed by HSBC, in which 1,402 contracts were traded.

NatWest Stockbrokers announced it had pulled out of the traded options market after a strategic review.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2764.1 -27.9	2650.8 +6.3	1309.32 -9.44

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Year ago	1992 High	1992 Low	Since compilation High	Since compilation Low
FT-SE 100	2764.1	2792.0	2778.8	2760.1	2741.8	2423.8	2792.0	2281.0	2792.0	986.9
FT-SE Mid 250	2650.8	2644.5	2637.5	2627.6	2618.6	2364.0	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1335.4	1345.5	1339.7	1331.5	1323.5	1175.2	[illegible]	[illegible]	[illegible]	[illegible]

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2775.0	2776.6	2781.9	2778.5	2777.8	2774.5	2772.8	2770.6	2764.3	[illegible]	2762.1
FT-SE Mid 250	2642.9	2643.9	2645.5	2647.1	2647.3	2649.3	2648.9	2640.8	2645.6	2650.9	2642.7
FT-SE-A 350	1338.8	1339.5	1341.7	1340.6	1340.3	1339.2	1338.5	1337.7	1335.4	1342.6	1334.3

Gross dividend yield (ACT at 25%) FT-SE 100: 4.38%

FT-Actuaries All-Share

EQUITY GROUPS & SUB-SECTIONS — Wednesday December 2 1992

Figures in parentheses show number of stocks per section

	Index No.	Day's Change %	Other columns
1 CAPITAL GOODS (175)	799.88	-0.2	[illegible]
2 Building Materials (23)	784.79	+0.4	[illegible]
3 Contracting, Construction (26)	656.07	+0.2	[illegible]
4 Electricals (9)	2243.97	+1.7	[illegible]
5 Electronics (28)	2196.23	-2.0	[illegible]
6 Engineering-Aerospace (6)	261.63	+0.5	[illegible]
7 Engineering-General (43)	464.24	-0.2	[illegible]
8 Metals and Metal Forming (7)	297.24	-0.2	[illegible]
9 Motors (15)	343.48	+5.4	[illegible]
10 Other Industrials (18)	1862.52	-0.8	[illegible]
21 CONSUMER GROUP (192)	1711.27	-0.7	[illegible]
22 Brewers and Distillers (25)	2041.06	-1.6	[illegible]
25 Food Manufacturing (19)	1294.48	+0.2	[illegible]
26 Food Retailing (18)	3107.77	[illegible]	[illegible]
27 Health and Household (26)	4286.90	-1.2	[illegible]
29 Hotels and Leisure (18)	1207.21	[illegible]	[illegible]
30 Media (26)	1713.98	-0.5	[illegible]
31 Packaging, Paper & Printing (17)	755.09	-0.3	[illegible]
34 Stores (33)	1132.87	-0.4	[illegible]
35 Textiles (10)	710.98	+1.0	[illegible]
40 OTHER GROUPS (135)	1400.03	-0.5	[illegible]
41 Business Services (17)	1432.48	-0.4	[illegible]
42 Chemicals (22)	1369.34	+0.2	[illegible]
43 Conglomerates (10)	1388.93	-0.6	[illegible]
44 Transport (13)	2641.16	-0.7	[illegible]
45 Electricity (16)	1496.51	+0.3	[illegible]
46 Telephone Networks (4)	1676.25	-1.1	[illegible]
47 Water (11)	3145.36	-0.1	[illegible]
48 Miscellaneous (22)	2409.28	-0.6	[illegible]
49 INDUSTRIAL GROUP (482)	1383.57	-0.5	[illegible]
51 Oil & Gas (18)	2164.62	-1.2	[illegible]
59 500 SHARE INDEX (500)	1457.14	-0.6	[illegible]
61 FINANCIAL GROUP (82)	844.25	-1.4	[illegible]
62 Banks (9)	1152.06	-1.6	[illegible]
65 Insurance (Life) (6)	1726.37	-0.9	[illegible]
66 Insurance (Composite) (7)	628.67	-2.8	[illegible]
67 Insurance (Brokers) (10)	703.12	-0.1	[illegible]
68 Merchant Banks (6)	464.64	+1.2	[illegible]
69 Property (30)	611.29	-0.3	[illegible]
70 Other Financial (14)	269.89	+0.1	[illegible]
71 Investment Trusts (69)	1274.48	-0.6	[illegible]
99 ALL-SHARE INDEX (651)	1309.32	-0.7	[illegible]

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Constrn	1294.5	1296.8	1298.0	1297.4	1297.4	1298.2	1297.0	1296.5	1296.5	1297.0	1293.2	[illegible]
Health&H	1303.5	1306.0	1307.8	1304.3	1305.7	1304.3	1305.3	1302.7	1299.4	1297.6	1313.5	[illegible]
Water	1300.5	1301.4	1292.0	1291.8	1290.9	1301.1	1301.1	1302.0	1301.2	1300.6	1299.2	[illegible]
Banks	1405.6	1401.0	1411.5	1416.5	1407.0	1398.6	1403.4	1400.2	1399.3	[illegible]	1425.2	[illegible]

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)							
Treas 8¼pc 1993		100⅛	—	100[illegible]	97[illegible]	[illegible]	[illegible]
10pc 1993‡‡		101¼	—	101[illegible]	99⅛	[illegible]	[illegible]
12½pc 1993‡‡		[illegible]	[illegible]	104⅛	100[illegible]	[illegible]	[illegible]
Funding 6pc 1993‡‡		[illegible]	[illegible]	100	95⅞	[illegible]	[illegible]
Treas 13¼pc 1993‡‡		[illegible]	[illegible]	107⅝	103⅞	[illegible]	[illegible]
8½pc 1994		[illegible]	[illegible]	[illegible]	96¼	[illegible]	[illegible]
14½pc 1994‡‡		[illegible]	[illegible]	110⅛	104[illegible]	[illegible]	[illegible]
Exch 13½pc 1994		[illegible]	[illegible]	110[illegible]	103[illegible]	[illegible]	[illegible]
Treas 10pc Ln. 1994‡‡		[illegible]	[illegible]	105[illegible]	98[illegible]	[illegible]	[illegible]
Exch 12½pc 1994		[illegible]	[illegible]	110⅛	103⅞	[illegible]	[illegible]
Treas 9pc 1994‡‡		[illegible]	[illegible]	104[illegible]	96⅝	[illegible]	[illegible]
12pc 1995		[illegible]	[illegible]	111⅛	102[illegible]	[illegible]	[illegible]
Exch 3pc Gas 90-95		94½	—	95¼	88¼	[illegible]	[illegible]
10¼pc 1995		107¼	[illegible]	109⅛	99⅞	[illegible]	[illegible]
Treas 12¾pc 1995‡‡		114[illegible]	[illegible]	116½	106⅛	[illegible]	[illegible]
14pc 1996		117[illegible]	[illegible]	119[illegible]	109[illegible]	[illegible]	[illegible]
9pc 1992-96‡‡		100⅞	—	104½	96⅞	[illegible]	[illegible]
15¼pc 1996‡‡		122⅝	[illegible]	125¼	113[illegible]	[illegible]	[illegible]
Exch 13¼pc 1996‡‡		118[illegible]	[illegible]	119⅞	108	[illegible]	[illegible]
Conversion 10pc 1996		108[illegible]	[illegible]	110[illegible]	98[illegible]	[illegible]	[illegible]
Treas 13¼pc 1997‡‡		119[illegible]	[illegible]	121[illegible]	109[illegible]	[illegible]	[illegible]

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

AMERICANS

	Notes	Price £	+ or −	1992 high	1992 low	Mkt Cap£m	Yld Gr's
Abbott Labs	h	[illegible]	−¼	21	14⅝	[illegible]	1.9
Allegheny & W	♥	411p	−27	484p	226p	213.6	4.6
Amdahl		[illegible]	−7	1139p	455p	612.1	1.4
Amer Cyanamid		37⅞	−½	38½	[illegible]	[illegible]	2.8
Amer Express		14½xd	[illegible]	15⅜	10⅞	[illegible]	4.4
Amer T & T		[illegible]	[illegible]	31½	20⅛	40,720	2.7
Ameritech		44	−½	46¼	32½	19,284	5.0
BankAmerica		[illegible]	[illegible]	30⅞	19⅜	[illegible]	2.7
Bankers NY		42¼xd	[illegible]	44	28⅞	3,391	4.2
Bell Atlantic		30¾	−½	31½	23⅞	13,275	5.3
BellSouth		31⅝	−⅛	34⅛	25	16,360	5.6
Bethlehem Steel	♥	9¼xd	[illegible]	10⅛	6¼	[illegible]	−
Bowater		1590pxd	−49	1611p	805p	586.0	4.8
CPC	h	30[illegible]xd	[illegible]	32	22⅞	4,867	2.5
Cadiz Land Inc	♥	115p	——	342p	108p	−	−
California Engy		874p	——	980p	501p	177.3	−
Chase Manhattan		17⅞xd	[illegible]	18⅛	9⅛	2,884	4.4
Chrysler		19½xd	[illegible]	19⅝	6¾	5,762	1.9
Citicorp		12⅞xd	[illegible]	12⅞	5⅜	4,690	−
Colgate-Palm		36⅝xd	[illegible]	42⅛	25¼	6,187	2.0
Cont'l Bank		1290p	−36	1321p	498p	1,298	2.9
Dana		28⅞xd	+¼	28⅞	14⅞	1,301	3.6
Data General		752p	——	1084p	384p	207.5	−
Decora Inds	♥	140p	——	140p	60p	−	−
Dun & Brad		37⅞	−⅞	38⅞	27⅝	6,713	3.6
Eaton		48⅛	−1⅛	48⅛	32⅛	1,881	2.9
Echlin		13⅞xd	[illegible]	13¼	7⅞	772.8	3.3
FPL		22⅞xd	[illegible]	23¼	17⅞	4,075	6.9
Fluor		29⅝xd	−1¼	30⅞	19¼	2,382	0.9
Ford Motor		27⅝xd	−⅛	27¾	15	13,408	2.3
Gen Elect		53⅛xd	−1⅝	55	36¼	45,305	3.0
General Host	♥	605p	−6	611p	380p	−	3.7
Gillette		36⅝xd	+⅛	40	23⅞	8,473	1.2
Hasbro		23	−½	23½	12⅞	1,887	0.5
Honeywell		44⅞xd	−⅛	44⅝	32	3,089	2.5
Houston Inds		28¾	−⅝	29½	22	3,729	6.6
IBM		43½xd	−⅞	54½	39⅞	24,826	7.0
Ingersoll-Rand		20⅞xd	−⅛	21	12⅞	2,132	2.1
Lockheed		33⅞	+⅛	33⅞	22⅞	2,047	4.0
Lowe's	h	1440p	−47	1485p	815½p	1,098	1.2
Merrill Lynch		38¼xd	−1⅛	38⅞	24⅝	3,902	2.0

[illegible]

BUILDING MATERIALS - Cont.

	Notes	Price	+ or −	1992 high	1992 low	Mkt Cap£m	Yld Gr's	P/E
Tarmac	□	96	+6	161	51	[illegible]	7.6	39.7
Titon	‡†	134	——	170	85	15.1	3.2	11.8
Travis Perkins	□	167	——	228	105	158.8	6.8	22.2
Tudor	‡†	28	——	38	28	3.06	‡	−
Unigroup	□	11	——	24	8½	2.22	−	−
Waterhouse	‡	28	——	43	23	0.70	‡	−
Wickes	□	77	−2	104	53	223.1	−	−
Wolseley	$□	505	−3	608	287	1,185	3.4	18.9

BUSINESS SERVICES

	Notes	Price	+ or −	1992 high	1992 low	Mkt Cap£m	Yld Gr's	P/E
ADT $	□	408	−15	593	343	573.0	−	♦
Adam & Harvey		190	——	248	193	8.47	7.4	3.1
Air London	‡	58	——	127	55	8.14	8.0	7.2
African Lakes		37	——	63	34	2.64	7.2	7.4
Auto'tnd Sec	†□	135	——	152	81	150.6	4.7	11.2
BET	$♣□	[illegible]	−3	126	83	803.2	10.1	12.6
BKB Res		43	−1	100	43	10.3	15.2	5.0
BPP	$†	233	——	235	208	69.6	3.5	14.9
Barbour Index		220	——	280	178	38.6	4.4	18.1
Boustead	□	14	+1	30½	13	11.9	8.7	28.6
Bridgend	†□	12	−1	33	12	2.82	‡	5.4
Brit Data Mangt	□	155	——	165	111	28.1	3.4	12.9
Brooks Service	‡	58	——	181	58	6.07	‡	18.5
CRT	□	77	——	142	77	40.5	4.2	8.8
Capita	†	407	+21	422	282	61.3	1.8	23.4
Caplest	†□	31½	——	38	19	25.7	2.1	11.9
Christian Capital AS		41	−1	270	25½	36.8	−	−
Christie Group		22	——	38	22	5.38	−	−
Chubb Security	□	218	−8	233	180	600.9	1.7	23.9
Conmac	‡	21	——	43	21	1.38	−	−
Corp Serve	‡□	5¼	——	31	5¼	1.77	−	−
Dart		[illegible]	——	120	53	8.88	8.3	8.0
Davis Service	□	186	−1	216	145	166.5	5.4	15.0
EW Fact	‡†	86	——	115	85	4.57	6.8	6.3
Gardiner	□	8½	——	67	8	9.11	20.4	2.6
Gardner DC		31	−1	48	21	7.28	−	−

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

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INVESTMENT TRUSTS - Cont.

Net asset values supplied by County NatWest Wood Mackenzie as a guide only. See guide in London Share Service.

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

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Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

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AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	150.7	152.3xd	160.3	-2.30	0.00
AIB Grofund Equity	5	196.4	199.0	210.6	+0.30	2.09
AIB Grofund Euro	5	143.0	144.8	152.4	-1.20	0.60
AIB Grofund Eqn Balanced	3	96.00	97.68	100.7	+0.40	0.00
AIB Grofund Gilt	3	74.20	74.25	76.53	+0.09	5.58
AIB Grofund Japan	5	122.8	124.2xd	130.8	-1.50	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corporation St, Coventry 0203 553231

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	392.4	394.3	419.5	+0.3	3.02
General Acc	5	427.3	429.3	456.8	+0.2	3.02
UK Growth Acc	6	287.3	291.6xd	310.3	+0.5	3.41
UK Growth Inc	6	206.0	209.0xd	222.4	+0.4	3.41
Higher Inc Acc	6	492.1	500.2xd	532.2	+2.2	4.81
Higher Inc Inc	6	303.6	308.6xd	328.3	+1.3	4.81
Gilts/Fxd Int Acc	5½	165.5	165.5	174.8	...	6.92
Gilts/Fxd Int Inc	5½	89.15	89.15	94.16	-0.01	6.92
Nth America	6	247.7	252.4xd	268.6	-4.6	0.00
Far East	6	228.3	230.3xd	245.1	-4.7	0.21
Europe	6	197.5	199.0	211.8	-2.2	0.69
Brit Excell	6	59.22	59.22xd	63.00	+0.19	3.50
Brit Fndmntls Acc	6	74.42	74.42	79.17	+0.34	5.63
Brit Fndmntls Inc	6	58.41	58.41	62.14	+0.26	5.63
Global Opps	6	61.23	61.81xd	65.76	-0.79	0.00

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gilts & Fixed Int	6	125.7	125.7xd	133.2	+0.1	7.13
High Inc Equity	6	130.1	133.1	141.5	+0.8	6.01
Worldwide Bond	6	253.2	253.2xd	268.3	-9.1	4.66
American Growth	6	261.4	261.4	279.5	-4.3	.72
Asian Pacific	6	176.4	180.6	192.1	-3.1	1.17
Assets & Earnings	6	197.5	201.6xd	214.4	+0.8	3.05
Capital Reserve Acc	0	123.9	123.9	124.2	...	5.99

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PA 041-332 3132

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Balanced Growth	6	83.31	83.31xd	89.10	-1.07	2.40
Do (Accum)	6	90.96	90.96	97.28	-1.17	2.40
Smaller Cos	6	60.96	60.96xd	65.20	+0.22	2.61
Do (Accum)	6	65.91	65.91	70.50	+0.24	2.61
Higher Yield	6	33.48	33.48xd	35.81	+0.16	5.57
Do (Accum)	6	45.26	45.26	48.40	+0.14	5.57
American Gth Inc	6	49.16	49.16	52.57	-1.09	0.16
Do (Accum)	6	50.09	50.09	53.57	-1.11	0.16
European Growth	6	86.36	86.36	92.36	-0.90	2.09
Do (Accum)	6	87.16	87.16	93.22	-0.98	2.09
Global Bond Inc	6	26.88	27.12xd	28.77	-0.35	5.11
Do (Accum)	6	33.02	33.33	35.36	-0.43	5.11
Managed P'folio Inc	6	29.34	29.42	31.47	-0.33	0.00
(Do Accum)	6	29.42	29.50	31.55	-0.33	0.00
Pacific Growth Accum	6	77.26	77.26	82.63	-1.79	1.03
Intl Spec Opps Accum	6	69.67	70.62	75.53	-0.68	1.83

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412262

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mngd P'folio Inc	6	79.73	79.73	84.91	-0.01	2.45
Mngd P'folio Acc	6	149.3	149.3	159.0		–
UK General	6	126.4	126.4xd	134.6	+0.70	3.77
Conv & General	6	16.38	16.38xd	17.61	-0.27	8.76
European Inc	6	20.61	20.61	22.23	-0.17	0.51
European Acc	6	21.28	21.28	22.96	-0.17	–
Financial	6	94.88	94.88	101.0	...	4.40
Foundation	6	60.89	62.74	66.82	+0.30	4.20
German	6	37.77	37.77xd	40.50	-0.35	0.10
Growth Inc †(5-1)	5	26.43	26.50xd	28.22	+0.12	3.28
Growth Acc †(5-1)	5	30.77	30.85	32.86	-0.12	–
High Income	6	63.30	63.54	68.62	+0.28	6.85
Income	6	103.6	104.8	113.2	+0.30	5.13
Intl Income	6	81.88	81.88	87.20	-0.19	5.93
Intl Growth ‡	6	30.33	30.33xd	32.30	-0.59	0.24
Monthly Income	6	57.12	59.21	63.06	+0.37	5.34
North American	6	97.31	97.31	103.6	-1.40	0.21
Orient ‡	6	90.06	90.06	96.87	-0.91	–
Recovery	6	27.43	27.57xd	29.77	-0.05	3.97
Smaller Cos Acc	6	194.7	194.7	207.4	+1.00	–
Smaller Cos Inc	6	114.0	114.0	121.4	+0.90	1.90

Brycourt Unit Tst Mgmt Ltd (1400)F
Hesketh Hse, Portman Sq, W1H 0JR 071-935 6382

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	1	182.3	182.3	187.2	...	6.67

MGM Unit Managers Ltd (1000)F
MGM House, Heene Rd, Worthing
Dealing: 0277 261010 Enq: 0903 204631

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income	5	234.3	238.2xd	253.4	+1.4	5.66
(Accum Units)	5	399.2	405.9	431.8	+2.3	5.66
UK Growth	5	303.2	305.4xd	324.8	+0.4	3.22
(Accum Units)	5	377.5	380.2	404.4	+0.5	3.22
Int Equity Gth ‡	5	94.32	94.44xd	97.91	-0.54	1.15
Intl Bond	5	62.47	62.47xd	65.65	-0.03	6.18
Special Sits Gwth	5	15.46	15.85	16.86	-0.04	2.92
North American Gwth	5	85.98	86.31	91.81	-1.30	0.92
European Growth ‡	6	55.10	55.46xd	58.99	-0.32	1.06

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128

Sharp (Albert E.) & Co (1000)F
Admin: 6 Rayleigh Rd Hutton, Brentwood Essex
Enquiries: 0277 227300 Dealing: 0277 261010

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Intl Bonds & Gwth	5	116.00	117.10	123.30	-0.30	5.61
Pooled Pension ♦	5¼	140.7	145.3	150.4	+1.4	–
Smaller Cos	5	50.72	52.52	55.28	+0.26	2.71
UK General	5	112.10	113.70	119.70	+0.20	3.51

Sheppards Unit Trust Mngmt Ltd (1200)F
1 Whitefriars Yard, London Bridge SE1 071 407 5966

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income	5	363.30	363.30	385.10	+0.79	5.36
Global Inc	5	51.57	51.57	54.66	-0.15	4.45
Brit Leaders	5	307.20	307.20	325.63	+0.99	3.14
Intl Leaders	5	165.26	165.26	175.18	-2.19	1.87
[illegible]	3¼	48.69	49.86	51.80	-0.02	3.28
[illegible]	3¼	48.69	49.86	51.80	-0.02	3.28

Singer & Friedlander UT Mgmt Ltd (1000)F
PO Box 224, Beckenham, BR3 4TF 081-663 3003

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
European Trust	6	46.42	46.56	49.53	-0.58	1.60
Far Eastern Tst	6	51.24	51.88	55.19	-0.52	0.89
Smaller Cos	5	112.5	117.2	124.7	+0.2	2.96

Smith & Williamson Unit Tst Mgrs (1600)F
1 Riding House St, London W1A 3AS 071-637 5377

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
S & W American ♦	5	269.7	269.2	284.8	-2.9	0.92
S & W Capital	5	107.1	107.1	114.8	-0.9	1.86
S & W Cash ♦	0	101.36	101.36	101.36	+0.02	7.02
S & W European	5	105.0	105.2	111.3	-0.3	1.23
S & W Far Eastern	5	108.1	109.1	115.4	-3.6	0.04
S & W Growth	5	114.8	116.1	122.8	-1.0	1.33
S & W Income	5	99.54	100.9	106.7	+0.1	5.51
S & W Magnum	5	113.3	113.3	121.3	-2.1	1.80
S & W Smllr Secs	5	249.0	254.8	269.6	-1.1	0.62
S & W Thoroughbred	5	130.6	130.6	140.1	-1.6	1.78

Societe Generale Touche Remnant (1600)F
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250
4 Hourly Pricing – 12 Noon Historic

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Gwth	5¼	74.57	74.57	79.75	-0.83	0
Eur Sp Sits Acc	5¼	40.53	40.53	43.22	-0.23	0
Eur Sp Sits Inc	5¼	38.28	38.28	40.82	-0.22	0
Far East Dsts Inc	5¼	25.67	25.67	27.67	-0.46	0
Far East Dsts Acc	5¼	26.37	26.37	28.42	-0.47	0
General Growth	5¼	89.96	89.96	96.43	[illegible]	[illegible]

Whittingdale Unit Tst Mgmt Ltd (0830)F
2 Honey Lane, London EC2V 8BT 071-600 0462

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Challenger	2½	86.47	86.47	88.48	-0.75	0.00
Short Dtd Gilt	1½	105.7	105.7	107.0	+0.20	1.93
U S Gomnt Bond	1½	[illegible]	[illegible]	[illegible]	[illegible]	0.00
Gilt Income	4	50.77	50.77	52.82	+0.06	0.68
Gilt Growth	4	62.41	62.41	64.96	+0.08	0.00
City Reserve	0	55.22	55.22	55.22	+0.01	7.88

Woolwich Unit Trust Managers Ltd (1700)H
1 White Oak Square, Swanley BR8 7AG 0705 980046

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stockmarket Fd F	5	61.04	61.27	65.18	-0.31	2.55

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Int'l Exmt Nov 30	1657.4	1680.8	....	1.02

Baring Investment Mngmt Ltd
155 Bishopsgate, London EC2M 3XY
071 214 1050 (general enquiries) 071 214 1004 (dealing)
Charitable Funds

	Bid Price	Offer Price	+ or -	Yield Gross
UK Growth & Income	50.12	51.91	(z)	4.8
Income Plus	48.40	49.35	(z)	7.5

James Capel Fund Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Exempt	£121.753	128.682	-0.71	4.29

Cent. Bd. of Fin. of Church of England‡‡
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	+ or -	Yield Gross
Inv Fund Oct 31	544.70	548.30	..	5.40
F'xd Int Sec Oct 31	151.40	152.10	..	9.53

Deposit Fund See Money Market Trust Funds.

Charinco/Charishares‡ (1000)F
33 King William Street, EC4R 9AS 071-280 2800

CAFINVEST–Charities Aid Foundation

COIF–Charities Official Inv Fd

Charity Fixed Int Fd/Charity Equity Fd

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Fledgeling Charity Portfolio

Robert Fleming Asset Mngmt Ltd

Foreign & Colonial Unit Management Ltd

Funds in Court*

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Brothers & Co. Ltd

Local Authorities Mutual Invest. Tst.*

M & G Securities Ltd

Morgan Grenfell Investment Funds Ltd

Morgan Stanley International

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

Rothschild Asset Management

J. Rothschild Fund Managers Ltd

Societe Generale Touche Remnant UT Mngt

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

INSURANCES

AXA Equity & Law Life Assce

AEGON Life Assurance Co (UK) Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

American Life Insurance Co UK

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Assurance

Canada Life Group

Cannon Assurance Ltd

Canada Life Assurance Ltd–Contd.

Century Life Assurance Company Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance

Clerical Medical/Fidelity Investments

Clerical Medical Investment Group

Colonial Mutual Group

Combined Life Assurance Co

Commercial Union Group

Confederation Life Assurance Co

Consolidated Life Assurance Co Ltd

Cornhill Insurance PLC

Crown Financial Management Ltd

Crown Financial Pensions Ltd–Contd.

Eagle Star Life Assurance Co Ltd

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society

Eurolife Assurance Company Ltd

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident

General Portfolio Life Insce Plc

Provincial GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Guardian Royal Exchange–Contd.

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General

Legal & General–Contd.

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Assurance

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

Manulife Group

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Mutual Life

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Norwich Union Pensions Management Ltd

Pearl Assurance (Unit Funds) Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Continued on next page

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4BB 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Balanced Grth Mngd	629.7	665.7	-0.4	-
Adventurous Mngd	149.1	158.7	-1.1	-
Cautious Mngd	120.2	127.9	...	-
Cash Fd	314.1	331.0	-	-
Property Fund	217.5	231.4	...	-
Equity Fund	713.3	758.9	-4.4	-
Fxd. Int. Fund	392.2	413.3	+0.1	-
International	319.6	340.0	-2.6	-
High Income	544.3	579.1	+2.1	-
Far East	417.8	444.5	-4.1	-
North American	420.5	447.4	-4.9	-
Special Sits	499.0	530.9	+1.5	-
Technology	420.1	447.0	-3.6	-
Extra Inc Fd	298.1	317.2	+1.5	-
Convertible & Gilt Fd	143.4	152.6	+0.5	-
American Income	168.0	178.8	-1.4	-
Gilt Fund 20	431.1	458.7	+1.4	-
European Fund	113.6	120.9	-0.5	-
Pref & Fixed Int	107.5	114.4	+0.2	-
UK Blue Chip	112.9	119.0	+0.6	-
Recovery Fund	104.0	109.6	+0.4	-
Equity Income Dist	100.6	107.1	+0.1	5.01
Managed Dist	95.7	101.9	-0.2	5.32
High Yield Dist	100.1	105.3	+0.3	7.41
Pension Funds				
Balanced Gth Mngd Pens Acc	722.3	760.4	+0.5	-
Adventurous Mngd Pens Acc	155.5	163.7	-1.2	-
Cautious Mngd Pens Acc	138.4	145.7	.....	-
Building Soc. Acc	361.3	380.4	...	-
Property Pens. Acc	295.3	310.9	.....	-
Fix. Int. Pens. Acc	619.2	651.8	+1.6	-
Equity Pens. Acc	911.9	959.9	-3.8	-
International Pens Acc	294.2	309.7	-2.9	-
High Inc Pens Acc	609.8	641.9	+2.7	-
Tech Pens Acc	297.6	313.3	-2.8	-
N American Pens Acc	316.5	333.2	-3.7	-
Far Eastern Pens Acc	411.0	432.7	-4.7	-
Special Sits Pens Acc	410.8	432.5	+2.2	-
Extra Income Pens Fd	362.9	382.0	+1.7	-
Convertible & Gilt Pen	175.1	184.4	-2.0	-
American Inc Pens	192.5	202.7	+0.5	-
European Pens	125.8	132.5	-0.6	-
Managed Cash Pens	170.1	179.1	...	-
Pref & Fixed Pens	125.4	132.1	+0.2	-
UK Blue Chip	119.4	125.7	+0.8	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Reliance Mutual

Reliance House, Tonbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	+ or -	Yield Gross
Deposit Acc Fd	167.0	175.8	+0.1	-
Equity Acc Fd	386.0	406.3	+0.6	-
Managed Acc Fd	337.1	354.8	...	-
Prop Fd (1st Issue)	-	614.1	...	-
Prop Acc Fd (2nd Iss)	121.4	127.8	...	-
Unit Trust Mn. Fd	156.0	164.2	...	-
RL Pension Funds				
Deposit Acc	242.0	254.7	...	-
Equity Acc	283.6	298.6	+0.6	-
Fixed Int Acc	242.8	255.6	...	-
Gilt Indx Link Acc	184.6	194.3	...	-
Managed Acc	372.7	392.3	...	-

J Rothschild Assurance PLC

J Rothschild House, Dollar Street, Cirencester

Telephone: 0285 640302 Helpline: 041 307 6500

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
JRA/M&G Managed	108.9	114.7	-0.30	-
JRA/Scottish Amicable Mngd	104.3	109.8	+0.10	-
JRA/St James's Place Mngd	111.1	117.0	-0.70	-
Deposit	99.30	104.6	...	-
Far East	113.1	119.1	-3.00	-
Gilts	103.3	108.8	+0.50	-
Greater European	107.3	113.0	-0.60	-
North American	124.5	131.1	-1.70	-
UK Equity	108.1	113.8	...	-
Pension Funds				
JRA/M&G Managed cap	106.3	111.9	-0.50	-
JRA/M&G Managed acc	109.5	115.3	-0.50	-
JRA/Scottish Amicable Mngd cap	100.9	106.3		-
JRA/Scottish Amicable Mngd acc	104.1	109.6		-
JRA/St James's Pl Mngd cap	113.0	119.0	-1.00	-
JRA/St James's Pl Mngd Acc	116.4	122.6	-1.00	-
Deposit cap	99.50	104.8	..	-
Deposit acc	102.6	108.0	...	-
Far East cap	109.6	115.4	-3.60	-
Far East acc	112.9	118.9	-3.70	-
Gilts cap	101.4	106.8	+0.70	-
Gilts acc	104.5	110.0	+0.70	-
Greater European cap	106.8	112.5	-0.90	-
Greater European acc	110.1	115.9	-0.90	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Scottish Mutual Assurance plc

[illegible]

Scottish Provident Institution

[illegible]

Scottish Widows' Group

[illegible]

Shield Assurance Ltd

[illegible]

Skandia Life Assurance Co Ltd

[illegible]

Standard Life Assurance Company

[illegible]

Sun Alliance Group

[illegible]

Sun Life Unit Assurance Ltd

[illegible]

Swiss Life (UK) PLC

[illegible]

Swiss Pioneer Life Plc

[illegible]

TSB Life Ltd

[illegible]

Target Life Assurance Co Ltd

[illegible]

Teachers' Assurance Company Ltd

[illegible]

Templeton Life Assurance Limited

[illegible]

Tunbridge Wells Equitable

[illegible]

Wesleyan Assurance Society

[illegible]

Windsor Life Assur Co Ltd

[illegible]

Woolwich Life Assurance Co Ltd

[illegible]

Zurich Life Assurance Co Ltd

[illegible]

Property Life Assurance Ltd

[illegible]

Providence Capitol Life Assc. Co Ltd

[illegible]

Provident Life Assoc Ltd

[illegible]

Provident Mutual Life Assc. Assn.

[illegible]

Prudential Assurance Co

[illegible]

Prudential Corporate Pension Funds

[illegible]

Prudential Individual Life Funds

[illegible]

Prudential Individual Pension Funds

[illegible]

Royal Heritage Life Assurance Ltd

[illegible]

Royal Insurance Life Ltd

[illegible]

Royal Liver Assurance

[illegible]

Save & Prosper Group Ltd

[illegible]

Scottish Amicable

[illegible]

Scottish Equitable Life Assce. Soc.

[illegible]

Scottish Life Investments

[illegible]

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

[illegible]

AEtna Intl Assurance (Bermuda) Ltd

[illegible]

Albany International Assurance Ltd

[illegible]

CMI Insurance Co Ltd

[illegible]

Eagle Star Intl Life

[illegible]

Equitable Life (International)

[illegible]

Finance International Ltd

[illegible]

Hafnia Prolific International Ltd

[illegible]

Hansard International Ltd

[illegible]

Isle of Man Assurance Ltd

[illegible]

NEL Britannia International Ltd

[illegible]

PanEuroLife

[illegible]

Providence Capitol International Ltd

[illegible]

Royal Life Intl. Ltd

[illegible]

Royal Skandia Life Assurance Ltd

[illegible]

Sun Alliance International Life

[illegible]

Target International Group

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

[illegible]

Lloyd George Management

[illegible]

Newport Investment Management

[illegible]

Orion Fund Limited

[illegible]

CANADA (SIB RECOGNISED)

GBC Asset Management

[illegible]

GUERNSEY (SIB RECOGNISED)

AIB Grofund Inv Managers (Guernsey) Ltd

[illegible]

Adams & Neville Fd Mangt (Guernsey) Ltd

[illegible]

Baring Intl Fd Managers (Guernsey) Ltd

[illegible]

Equitable International Fund Managers Ltd

[illegible]

Coleman Flight Fd Mngrs (Guernsey) Ltd

[illegible]

Kleinwort Benson Intl Fd Mngrs Ltd

[illegible]

Lloyds Intl Money Market Fund Ltd

[illegible]

M & G (Guernsey) Ltd

[illegible]

Royal Bank of Canada Offshore Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

Merrill Lynch Guernsey

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

Bank of Ireland Unit Managers Ltd

[illegible]

Baring International Fd Mngrs (Ireland) Ltd

[illegible]

GT Asset Management (Ireland) Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

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[illegible]ED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline For further details call (071) 925 2128

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Germany props up weak franc

FRANKFURT and the franc-fort dominated the foreign exchange markets yesterday as the Bundesbank propped up the french currency only hours after its president hit out at central bank intervention, *writes Peter John*.

The moves took the spotlight from a strong pound and from the Danish krone which was supported by intervention from the Belgian and Dutch central banks.

In Paris, foreign exchange dealers said the Bank of France dipped in to the market in the morning but they had seen no sign of the French central bank intervening determinedly to prop up the franc, as it had been on Tuesday.

On the other hand, the announcement that the Bundesbank had chosen to buy francs before the french currency hit its floor of FFr3.4305 to the mark provided relief. There was no indication of the extent of the early intervention but the Bundesbank bought FFr50m at the midday Frankfurt bourse fixing and the inference was that it had bought a similar amount early on.

That level of intra-marginal intervention was relatively slight compared with the massive flows of currency in September. There was a strong feeling that France's currency problems were still very much in evidence and devaluation was a growing possibility.

The franc rallied a centime to FFr3.4030 against the mark following the intervention but drifted back again later and closed barely changed at FFr3.4110.

Selling of the German currency also took some of the pressure off the dollar which has suffered in the past two days despite several pieces of encouraging economic news. Nevertheless, yesterday's figures on new home sales gave no strong impetus and profit-takers took the US currency down to DM1.5710 against DM1.5800. The dollar remained steady against the Yen at Y124.40.

The krone remained at the bottom of the ERM league table despite intervention by the Danish central bank to support the currency against the Belgian franc and Dutch guilder, the two strongest currencies in the EMS. The Belgian and Dutch central banks also lent their support. The Belgian National Bank said its support for weak ERM currencies totalled some BFr70bn in the week to November 30.

The principal gainer yesterday was sterling which lifted half a pfennig to DM2.4325 from DM2.4275 and improved against the dollar to $1.5485 from $1.5365.

One theory was that the very short-term refinancing following German intervention surrounding Black Wednesday, had been carried out and selling pressure on the pound had been lifted. The general consensus, however, was that the UK currency was benefiting from being on the sidelines and away from the contortions being suffered by the ERM member currencies. The Irish punt also improved allowing short term interest rates in the country to be cut to 30 per cent from 100 per cent.

£ IN NEW YORK

Dec 2	Latest	Previous Close
£ Spot	1.5485-1.5495	1.5725 1.5735
1 month	0.41-0.40pm	0.44 0.41pm
3 months	1.28-1.25pm	1.26 1.23pm
12 months	3.75-3.65pm	3.70 3.63pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec 2	Previous
8.30 am	79.3	78.4
9.00 am	79.1	78.4
10.00 am	79.3	78.5
11.00 am	79.3	78.5
Noon	79.3	78.5
1.00 pm	79.4	78.5
2.00 pm	79.5	78.6
3.00 pm	79.6	78.9
4.00 pm	79.5	78.9

CURRENCY RATES

Dec 2	Bank ♠ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	–	0.911746	0.804113
U.S Dollar	3.00	1.38239	1.24332
Canadian $	6.18	1.77641	1.59642
Austrian Sch	8.25	15.4745	13.7722
Belgian Franc	7.75	45.2145	40.3115
Danish Krone	9.50	8.52105	7.61781
D-Mark	8.25	2.19938	1.95736
Dutch Guilder	7.75	2.47849	2.20130
French Franc	10	7.51260	6.67289
Italian Lira	13.00	1947.79	1732.70
Japanese Yen	3.25	172.384	154.793
Norway Krone	–	9.01664	8.00946
Spanish Peseta	–	159.395	141.588
Swedish Krona	12.50	9.50946	8.44089
Swiss Franc	6.00	1.97544	1.74997
Greek Drach	19	N/A	256.447
Irish Punt	–	N/A	0.740159

♠ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Dec.1

CURRENCY MOVEMENTS

Dec 2	Bank of England Index	Morgan** Guaranty Changes %
Sterling	79.5	-30.7
U.S Dollar	65.2	-11.8
Canadian Dollar	93.8	-8.5
Austrian Schilling	114.6	+15.9
Belgian Franc	116.1	+1.7
Danish Krone	116.2	+9.6
D-Mark	125.4	+31.3
Swiss Franc	113.8	+21.5
Dutch Guilder	119.7	+20.8
French Franc	109.0	-7.9
Lira	86.5	-30.0
Yen	149.7	+86.5
Peseta	98.2	-25.6

Morgan Guaranty changes average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Dec.1

OTHER CURRENCIES

Dec 2	£	$
Argentina	1.5295 - 1.5325	0.9900 - 0.9910
Australia	2.2645 - 2.2665	1.4635 - 1.4645
Brazil	15672.0 - 15682.5	10143.0 - 10144.0
Finland	7.8510 - 7.8590	5.0895 - 5.0945
Greece	314.150 - 320.550	204.480 - 208.570
Hong Kong	11.9760 - 11.9885	7.7410 - 7.7420
Iran	2190.00*	1450.00*
Korea(Sth)	1205.90 - 1225.35	782.20 - 788.40
Kuwait	0.46300 - 0.46400	0.29940 - 0.29970
Luxembourg	50.05 - 50.15	32.30 - 32.40
Malaysia	3.9190 - 3.9260	2.5380 - 2.5390
Mexico	4815.80 - 4819.90	3115.00 - 3117.00
N.Zealand	3.0115 - 3.0165	1.9480 - 1.9510
Saudi Ar	5.6435 - 5.7200	3.7495 - 3.7505
Singapore	2.5235 - 2.5300	1.6360 - 1.6370
S.Af (Cm)	4.6225 - 4.6335	2.9950 - 2.9970
S.Af (Fn)	7.5230 - 7.5780	4.8660 - 4.9020

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec 2	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	182.194	175.407	-3.73	5.30	63
Spanish Peseta	143.386	141.588	-1.25	2.67	22
Dutch Guilder	2.21958	2.20130	-0.82	2.22	39
Belgian Franc	40.6304	40.3115	-0.78	2.18	36
D-Mark	1.96992	1.95736	-0.64	2.03	39
Irish Punt	0.735334	0.740159	0.66	0.72	-31
French Franc	6.60683	6.67289	1.00	0.38	-58
Danish Krone	7.51410	7.61781	1.38	0.00	-65

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times

POUND SPOT - FORWARD AGAINST THE POUND

Dec 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5350 - 1.5505	1.5480 - 1.5490	0.40-0.38cpm	3.02	1.25-1.22pm	3.19
Canada	1.9700 - 1.9875	1.9805 - 1.9815	0.16-0.27cdis	-1.30	0.26-0.54dis	-0.81
Netherlands	2.7275 - 2.7450	2.7300 - 2.7400	⅜-½cdis	-1.92	1¼-1½dis	-1.92
Belgium	49.90 - 50.30	50.05 - 50.15	7-11cdis	-2.16	19-26dis	-1.80
Denmark	9.4350 - 9.4875	9.4375 - 9.4475	12-14oredis	-16.52	19-22½dis	-8.76
Ireland	0.9170 - 0.9240	0.9175 - 0.9185	5.35-2.00cpm	48.04	6.35-2.05pm	18.30
Germany	2.4225 - 2.4400	2.4300 - 2.4350	⅜-½pfdis	-2.16	1¼-1¼dis	-1.95
Portugal	217.00 - 219.50	217.25 - 218.25	262-515cdis	-21.41	641-950dis	-14.61
Spain	175.50 - 179.25	175.85 - 176.15	128-142cdis	-9.20	353-393dis	-8.48
Italy	2146.50 - 2162.25	2152.75 - 2153.75	13-15liredis	-7.80	36-43dis	-7.24
Norway	9.9475 - 10.0300	9.9475 - 9.9575	24⅜-29oredis	-32.18	29⅝-36¼dis	-13.24
France	8.2550 - 8.3125	8.2900 - 8.3000	3-3½cdis	-4.70	7¼-8¼dis	-3.98
Sweden	10.4250 - 10.5375	10.4700 - 10.4800	5-5⅝oredis	-6.09	10-13½dis	-4.49
Japan	190.75 - 193.50	192.25 - 193.25	⅝-½ypm	3.50	1¾-1⅝pm	3.50
Austria	17.03 - 17.16	17.09 - 17.12	1⅜-2⅜grodis	-1.40	3⅞-5⅝dis	-1.11
Switzerland	2.1500 - 2.1800	2.1525 - 2.1625	⅛-parcpm	0.35	⅜-¼pm	0.58
Ecu	1.2405 - 1.2460	1.2420 - 1.2430	0.54-0.60cdis	-5.51	1.29-1.40dis	-4.33

Commercial rates taken towards the end of London trading. Six-month forward dollar 2.31-2.26pm 12 Month 3.65-3.55pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Dec 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5350 - 1.5505	1.5480 - 1.5490	0.40-0.38cpm	3.02	1.25-1.22pm	3.19
Ireland†	1.6660 - 1.6845	1.6805 - 1.6815	8.50-3.50cpm	42.83	11.00-4.50pm	18.44
Canada	1.2800 - 1.2870	1.2815 - 1.2825	0.44-0.49cdis	-4.35	1.20-1.35dis	-3.98
Netherlands	1.7640 - 1.7810	1.7655 - 1.7665	0.75-0.78cdis	-5.20	2.21-2.26dis	-5.06
Belgium	32.30 - 32.60	32.30 - 32.40	13.00-14.50cdis	-5.10	39.00-42.00dis	-5.01
Denmark	6.0925 - 6.1625	6.0950 - 6.1000	7.00-19.00oredis	-25.58	15.00-35.00dis	-16.40
Germany	1.5680 - 1.5830	1.5705 - 1.5715	0.70-0.71pfdis	-5.39	2.04-2.06dis	-5.22
Portugal	140.40 - 142.00	140.85 - 140.95	325-475cdis	-34.07	625-875dis	-21.29
Spain	113.45 - 114.45	113.90 - 114.00	113-120cdis	-12.27	322-345dis	-11.71
Italy	1388.00 - 1403.25	1390.25 - 1390.75	12.00-13.00liredis	-10.79	35.00-38.00dis	-10.50
Norway	6.4200 - 6.4900	6.4250 - 6.4300	15.00-30.00oredis	-42.01	26.00-38.00dis	-19.91
France	5.3475 - 5.3950	5.3550 - 5.3600	3.35-3.65cdis	-7.84	9.45-9.95dis	-7.24
Sweden	6.7625 - 6.8200	6.7625 - 6.7675	4.90-5.90oredis	-9.58	12.00-14.00dis	-7.69
Japan	124.00 - 124.55	124.35 - 124.45	0.05-0.05ypm	0.48	0.07-0.06pm	0.21
Austria	11.0525 - 11.1200	11.0675 - 11.0725	4.40-4.80grodis	-4.99	12.55-13.65dis	-4.73
Switzerland	1.3920 - 1.4175	1.3920 - 1.3930	0.31-0.32cdis	-2.71	0.93-0.95dis	-2.70
Ecu	1.2360 - 1.2460	1.2435 - 1.2445	0.89-0.86cpm	8.44	2.32-2.26pm	7.36

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency

EURO-CURRENCY INTEREST RATES

Dec 2	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	7 - 6¾	7 - 6¾	7¼ - 7⅛	7⅜ - 7¼	7⅛ - 7	6⅞ - 6¾
US Dollar	3⅛ - 3	3⅛ - 3	4⅛ - 4⅛	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 4⅛
Can. Dollar	8⅞ - 8⅝	8½ - 8⅛	8⅝ - 8⅛	8 - 7⅞	7⅞ - 7½	7⅝ - 7⅛
Dutch Guilder	8⅞ - 8⅞	8⅞ - 8⅞	9⅛ - 9⅛	9 - 8⅞	8⅝ - 8⅛	8⅛ - 7⅞
Swiss Franc	6 - 5¾	6¼ - 6	6¾ - 6⅝	6⅝ - 6⅛	6⅝ - 6⅛	5⅞ - 5⅞
D-Mark	9¼ - 9	9⅛ - 9⅛	9¼ - 9⅛	9 - 8⅞	8¾ - 8⅝	8⅛ - 8
French Franc	11 - 10	11½ - 10½	12 - 11	11¼ - 10¼	10⅝ - 10⅛	9½ - 9¼
Italian Lira	13½ - 11½	13¼ - 12¼	14⅝ - 14⅛	14⅜ - 13⅞	14¼ - 13¼	14 - 13½
Belgian Franc	8⅞ - 8⅞	8⅞ - 8¾	8⅞ - 8¾	8⅞ - 8⅞	8⅝ - 8¼	7⅞ - 7⅞
Yen	3⅞ - 3⅝	3⅞ - 3⅞	3⅞ - 3⅞	3¾ - 3⅞	3⅞ - 3⅝	3⅞ - 3⅝
Danish Krone	20 - 15	20 - 15	19½ - 14½	13⅝ - 11⅝	11⅝ - 10½	10⅝ - 9¾
Asian $Sing	⅜ - ¼	½ - ⅜	1⅝ - 1⅝	2¼ - 2⅛	2⅝ - 2½	2⅞ - 2⅞
Spanish Peseta	15½ - 15¼	15½ - 15¼	15½ - 15	15½ - 15¼	15 - 14¼	15 - 14¼
Portuguese Esc	17 - 14	17 - 14	41 - 31	28½ - 21½	23½ - 19½	18⅝ - 15⅝

Long term Eurodollars: two years 5¼-5⅛ per cent, three years 5⅞-5⅝ per cent; four years 6¼-6⅛ per cent; five years 6⅞-6⅝ per cent nominal. Short term rates are call for US Dollars and Japanese Yen, others two days' notice

EXCHANGE CROSS RATES

Dec.2	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr	Pta	Ecu
£	1	1.548	2.432	192.7	8.295	2.157	2.735	2153	1.981	50.10	176.0	1.242
$	0.646	1	1.571	124.5	5.359	1.393	1.767	1391	1.280	32.36	113.7	0.802
DM	0.411	0.637	1	79.24	3.411	0.887	1.125	885.3	0.815	20.60	72.37	0.511
YEN	5.189	8.033	12.62	1000.	43.05	11.19	14.19	11173	10.28	260.0	913.3	6.445
F Fr.	1.206	1.866	2.932	232.3	10.	2.600	3.297	2596	2.388	60.40	212.2	1.497
S Fr.	0.464	0.718	1.127	89.34	3.846	1	1.268	998.1	0.918	23.22	81.59	0.576
N Fl.	0.366	0.566	0.889	70.46	3.033	0.789	1	787.2	0.724	18.32	64.35	0.454
Lira	0.464	0.719	1.130	89.50	3.853	1.002	1.270	1000	0.920	23.27	81.75	0.577
C$	0.505	0.781	1.228	97.27	4.187	1.089	1.381	1087	1	25.29	88.84	0.627
B Fr.	1.996	3.090	4.854	384.6	16.56	4.305	5.459	4297	3.954	100.	351.3	2.479
Pta	0.568	0.880	1.382	109.5	4.713	1.226	1.554	1223	1.126	28.47	100.	0.706
Ecu	0.805	1.246	1.958	155.2	6.679	1.737	2.202	1733	1.595	40.34	141.7	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100 Peseta per 100

FINANCIAL FUTURES AND OPTIONS

CHICAGO

LONDON (LIFFE)

PARIS

MONEY MARKETS

Futures drift lower

DISAPPOINTMENT over the lack of interest in a big gilts auction overflowed into the short sterling market yesterday. However, an increasing number of dealers have already closed their positions ahead of the Christmas break and much of the business was technical, *writes Peter John*.

At the opening, the sterling contract for March delivery was squeezed to its high of 93.44. Then it was realised that the £2.5bn auction of gilts was only covered 1.26 times and the contract was sold down to 93.35. The auction interest was particularly disappointing because the gilts were partly-paid.

One trader asked: "If people don't want a partly paid stock that is free of tax to overseas funding what do they want?" One interpretation was that growing realisation of the extent of forthcoming UK borrowing requirements, were deterring overseas buyers.

UK clearing bank base lending rate 7 per cent from November 13, 1992

The March contract, which has now moved decisively into the lead position over December closed 7 points lower at 93.35 with some 14,200 contracts traded, low compared with the previous two days. CIBC, the Canadian bank, is a seller arguing that the yield differential between March and September is, at seven basis points, too narrow and should widen to around 25 basis points.

Meanwhile, the Bank of England said it expected a money market liquidity shortage of around £500m. Among the main factors affecting the position, the take-up of Treasury Bills and paper maturing in official hands drained £685m from the system while a rise in note circulation removed some £150m and bankers' balances below target took out some £50m. Partly offsetting these outflows, exchequer transactions were expected to add some £365m.

The clearing banks declined to take up the early offer of assistance feeling that at 6 per cent the overnight rates offered better value.

By the afternoon, overnight money had firmed to seven per cent and the central bank provided £256m of assistance, buying £216m of band one bills at 6¾ per cent and £40m of band two bank bills at the same rate.

The Bank provided £25m in late assistance but the help came too late for most of the clearers and there was still around £400m of the revised £700m forecast shortage that was not taken up.

FT LONDON INTERBANK FIXING

MONEY RATES

NEW YORK

LONDON MONEY RATES

BASE LENDING RATES

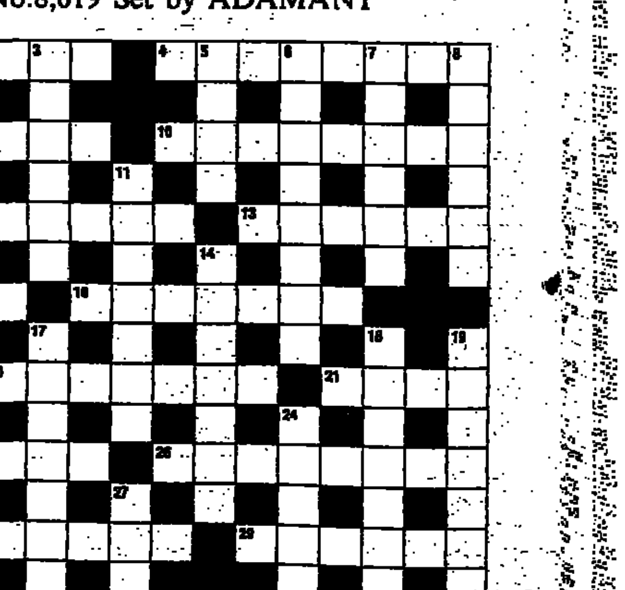
MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

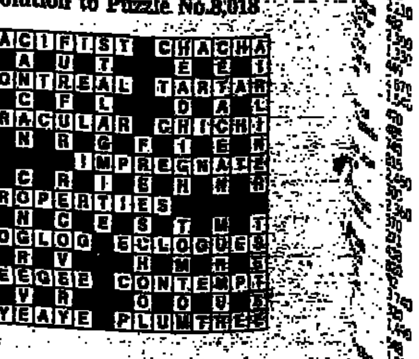
No.8,019 Set by ADAMANT



ACROSS
1 Material girl will pop the question (6)
4 Firmly supportive of breaking the law in the beginning (8)
9 Show the symptoms of a second winter in France? (6)
10 Imaginative repair work needed if fan club loses second letter (8)
12 Union achieved a nice settlement after all (8)
13 The sort of information that could land the criminal here (6)
15 Decline to lose degree over at Cambridge? (4)
16 Two letters in the jacket (7)
20 Fade away before last month's failure to meet the payments (7)
21 Trick into believing that the hot beef has top grade filling (4)
25 ICI let the invention draw forth a response (6)
26 Taking up the cause of the sixth sense, also universal puzzles (8)
28 Nose rest (8)
29 The man from La Mancha perhaps takes one to be older (6)
30 Ran them all, without mother around to exert her charm (8)
31 Seem to edit a paper (6)

DOWN
1 It's a poor side that can't manage this fan (8)
2 Inject capital to reinforce the fabric (8)
3 Ride the ups and downs of playground life (8)
5 What a change when the weather gets warmer! (4)
6 Parasites seen on the move by the innkeeper (6)
7 The business of having a romantic intrigue (6)
8 Guide for the person on the cash box (6)
11 He learns the point of the choral version (7)
14 Get rid of a boil – has to be lanced (7)
17 He negotiates for news channels over the hill (8)
18 Turning point in solar heating comes when costs lie out (8)
19 Person looking for fresh ground might err over following former guerrillas (8)
22 Be held up, feel somehow weak (6)
23 Straightforward command (6)
24 Careless little girl who could not keep her pen full (6)
27 Healthy supply of water (4)

Solution to Puzzle No.8,018



INDICES

NEW YORK

DOW JONES	Dec 1	Nov 30	Nov 27	Nov 25	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3294.36	3305.16	3292.20	3266.26	3413.21 (1/6)	3136.58 (9/10)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	102.50	102.42	102.42	102.22	103.20 (18/9)	98.41 (30/3)	103.20 (18/9/92)	54.99 (1/10/81)
Transport	1423.82	1416.77	1411.33	1404.99	1467.68 (30/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	218.20	218.70	217.95	218.01	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

STANDARD AND POOR'S

	Dec 1	Nov 30	Nov 27	Nov 25	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	430.78	431.35	430.16	429.19	431.35 (30/11)	394.50 (8/4)	431.35 (30/11/92)	4.40 (1/6/32)
Industrials	505.45	505.86	504.34	503.04	505.86 (30/11)	470.91 (6/4)	505.66 (30/11/92)	3.62 (21/6/32)
Financial	39.08	39.25	39.09	38.97	39.25 (30/11)	32.40 (8/4)	39.25 (30/11/92)	8.64 (1/10/74)
NYSE Composite	237.20	237.45	236.72	236.13	237.45 (30/11)	217.92 (8/4)	237.45 (30/11/92)	4.46 (25/4/42)
Amex Mkt. Value	392.97	395.11	393.39	392.88	418.99 (12/2)	364.85 (9/10)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	653.95	652.73	649.49	648.33	653.95	547.84	653.95	54.87

TOKYO - Most Active Stocks

Wednesday, December 2, 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsui Min	5.2m	490	-8	Kaken Pharm	2.1m	1,470	[illegible]
M'bishi Heavy	4.5m	550	+4	Kawasaki Steel	1.9m	384	[illegible]
Nippon Carbon	4.1m	513	+33	Clarion	1.6m	472	[illegible]
Nippon Steel	4.0m	390	+3	NEC Corp	1.6m	668	[illegible]
Nippon Jutaki	4.0m	295	+7	Toshiba Corp	1.6m	622	[illegible]

3 pm December 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11	AAR Corp	0.48	4.0	19	136	12	11¾	12	+⅛
28½	18	A L Labs A	0.18	0.8	136	308	21⅞	21½	21⅞	+¼
66¾	52⅝	AMP Inc	1.52	2.6	21	1599	58½	57½	57⅞	−¼
80¼	54⅞	AMR			13	2720	65¼	64⅞	64⅞	+⅜
2⅜	1⅛	ARX			12	30	2	1⅞	1⅞	
63½	30½	ASA	2.00	5.9	22	614	34⅜	33¼	34	+1¼
34¼	25⅛	Abbott Lab	0.60	2.0	21	7043	31¼	30½	30¾	−⅛
13⅞	10⅜	Abitibi Pr	0.40	3.6	5	2	11	11	11	
11⅝	10⅛	ACM Gvt In	1.01	9.3		241	11	10⅞	10⅞	−⅛
10⅜	9⅛	ACM GvOpp	0.87	9.3		85	9½	9⅜	9⅜	−⅛
9¾	8½	ACM Gvt Sp x	0.91	10.1		305	9	8⅞	9	+⅛
11⅜	10⅜	ACM Gvt Se x	1.01	9.7		203	10½	10⅜	10⅜	−⅛
10⅝	8⅝	ACM Man	1.00	9.9		186	10⅛	10	10⅛	+⅛
12⅞	9	ACM Managd	1.08	11.9		229	9¼	d9	9⅛	−⅛
11¾	4¼	Acme Cleve	0.40	4.5	16	169	9	8¾	8⅞	−⅛
6¼	3¼	Acme Elect			100	10	5	5	5	
33¼	14⅜	Acuson			12	426	16⅞	16⅜	16⅝	−¼
21	18⅛	Adams Expr	1.62	8.2	1	58	19⅞	19½	19⅞	+¼
49⅞	29½	Ad Micro x	3.00	6.7		709	45⅛	44⅝	44⅝	−⅝
21½	7½	Ad Micro P	3.00	16.6		53362	18¼	17⅞	17⅞	−¼
9⅛	4⅞	Advest Grp	0.16	2.7	12	51	6	5⅞	6	
42¾	33	Aegon ADR	1.35	3.3	7	60	41⅛	41	41	+⅛
47	36	Aetna Lf	2.76	5.9	13	2039	46⅝	45⅞	46⅝	+⅝
12¾	6¾	Affil A	0.24	2.1	15	426	11⅞	11½	11½	−¼
34	24	Aflac	0.44	1.4	14	646	32⅜	31⅝	32	−½
19⅜	13	Ahmanson	0.88	5.2	8	670	17⅜	16⅞	16⅞	−⅝
22½	4	Aileen Inc			14	409	8⅞	8½	8½	−⅜
49½	38½	Air Pr Chm	0.86	1.8	20	1948	49	48⅜	49	+⅛

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng
82¼	68½	Xerox x	3.00	3.8	16	540	78½	78	78	
55	50½	XeroxA 125 x				z100	u55	55	54	-1
41¼	24⅞	Xtra 1 94	1 94	4 9		352	41	39⅞	39⅝	-1⅜
57¼	28½	Xtra Corp	0.80	1.5	16	637	57	55⅛	55⅛	-2⅜
30⅝	25¼	Yankee Egy	1 66	6 1	12	183	27⅛	26¾	27⅛	+½
1½	½	Zapata			23	182	⅞	⅞	⅞	+1/16
11⅛	5	ZenithElec			2	896	6¾	6½	6½	
19½	14½	Zenith Nat	1 00	6 1	8	179	16⅞	16½	16½	-⅛
7½	6	Zenix Inc	0.83	12 5		142	6⅝	6½	6⅝	+⅛
13⅝	10	Zero Corp	0.40	3 0	20	83	13⅛	13	13¼	-⅛
38	27¾	Zurn Ind	0 88	2.4	42	38	37⅞	37¼	37¼	-⅛
14⅛	12	Zweig Fund	1 12	8 7		107	13	12⅞	12⅞	-⅛
11	9½	Zweig Toll	0.96	9.5		242	10⅛	10	10⅛	+⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial

a-dividend also extra(s) b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full yld-yield z-sales in full

AMEX COMPOSITE PRICES

3 pm December 2

[illegible]

NASDAQ NATIONAL MARKET

3 pm December 2

[illegible]

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		22	1002	21½	20½	20½	-¼
Xoma Corp		4	834	10	9½	9¾	+¼
Yellow Fr	0 94	21	137	28¾	27¾	28⅛	+⅛
York Rsch		7	954	7	6¾	6⅞	+⅛
ZionsUtah	1 44	12	150	74	72¼	72½	

AMERICA

Profit-taking keeps Dow under pressure

Wall Street

PROFIT-TAKING continued to afflict US stock markets, with share prices easing across the board in heavy trading, *writes Patrick Harverson in New York.*

By 1pm the Dow Jones Industrial Average was down 6.21 at 3,288.15, although off its lows for the morning when it had been down almost 15 points. The more broadly based Standard & Poor's 500 was also lower at the halfway stage, down 1.37 at 429.41, while the Amex composite gave up 0.94 at 392.03. The Nasdaq composite's recent record-breaking streak appeared as if it was about to end, with the index dropping 2.02 to 651.93 by 1pm. Turnover on the NYSE was 143m shares, and declines outnumbered rises by 962 to 688.

The day's only economic statistics, a 10.3 per cent fall in October new single-family home sales, were virtually ignored by the market because of their inconsistency. Analysts and investors were reluctant to read much into the latest numbers after the commerce department announced a big upward revision in the previous month's data.

Most of the damage to prices was inflicted by profit-taking, and a fall in Caterpillar, one of the biggest constituents of the Dow average.

The market was also nervous ahead of today's all-important employment report for November, which will give the best indication yet of current economic conditions. Investors were worried that because of structural weaknesses in the labour market, recent, positive economic data might not feed through into the job figures as some had hoped.

Among individual stocks, Caterpillar dropped $1¾ to $54¾ after the management said that it appeared possible that the company would report a "modest loss" in the fourth quarter. Caterpillar had previously said that it expected to post a small profit in the October-to-December period.

LA Gear plunged $1¼ to $10⅝ on a warning from the sports-shoe maker that it expects to report a loss from continuing operations of between $27m and $31m in the forth quarter, and a loss of between $69m and $73m for the full year of 1992.

Consolidated Stores eased $⅞ to $17 in busy trading after the broking house Merrill Lynch lowered its intermediate-term rating on the stock from "buy" to "above average" in anticipation of a technical correction in retail stocks during the first quarter.

Standard Federal Bank bucked the trend with a rise of $1⅞ to $23⅝ following a statement from the company predicting 1992 earnings of $3 a share, up sharply from the $2.11 reported a year ago.

On the Nasdaq market, LaserMaster Technology dropped $7¼ to $2⅞ after warning that it would not meet analysts' forecasts of earnings and revenues for both the second fiscal quarter and for all of 1993.

Canada

TORONTO stocks followed Wall Street lower at midday. The TSE 300 slipped 6.3 to 3267.4 in volume of 20.8m shares valued at C$179m. Declines narrowly exceeded advances by 210 to 207, with 227 issues unchanged. The metals and minerals sector continued its recovery, rising 35.69 or 1.3 per cent to 2,789.56.

The consumer products index tumbled 86.49 or 1.42 per cent to 5,992.54 following losses in Seagram which dropped C$1⅛ to C$33¼ after reporting earnings per share of 47 US cents after 51 US cents.

PWA Corp fell 17 cents to 57 cents.

SOUTH AFRICA

JOHANNESBURG ended steady to higher as a recovery in industrials helped to reverse losses in mining-related shares. Industrials gained 35 to 4,229 and the overall index added 1 to 3,204. Golds lost 2 to 863.

EUROPE

Bourses retreat on poor corporate news

CURRENCY worries and some negative corporate news caused bourses to retreat, *writes Our Markets Staff.*

PARIS fell back after its recent gains as the possibility of a devaluation in the franc began to worry the market for the first time. There were reports that the Caisse des Dépôts bought shares late in the afternoon to support the market. The CAC-40 index ended 8.96 down at 1,783.33 in turnover of FFr2.6bn.

Eurotunnel was the day's most active issue, losing 95 centimes or 3.2 per cent to FFr29.15 after its chairman Mr André Bénard said the channel tunnel project expected to raise new capital to help plug a funding shortfall which he estimated at FFr5bn.

Also on the way down was Peugeot which dropped FFr7 to FFr636 after negative car sales data for November. Last month Peugeot car sales in France fell 13 per cent from the same period in 1991, while sales by Renault rose 41.6 per cent.

Euro Disney dropped a further FFr2.90 or 4.9 per cent to FFr56.50 as the fallout from recent broker downgrades continued.

FT-SE Actuaries Share Indices

December 2 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1054.09	1054.79	1055.65	1055.29	1054.12	1053.35	1051.83	1052.11
FT-SE Eurotrack 200	1133.55	1131.98	1131.68	1133.89	1134.98	1131.11	1131.75	1130.96

	Dec 1	Nov 30	Nov 27	Nov 26	Nov 25
FT-SE Eurotrack 100	1056.79	1057.75	1049.92	1048.05	1042.55
FT-SE Eurotrack 200	1135.62	1132.14	1122.37	1118.56	1111.41

Base value 1000 (26/10/90) High/day: 100 - 1056.34; 200 - 1135.30 Low/day: 100 - 1051.54 200 - 1129.88

FRANKFURT saw a flurry of activity in late trading, having moved in a narrow range for most of the day. The DAX index closed down 10.93 at 1,533.96 as turnover rose to DM4.8bn from DM4.5bn.

Henkel fell DM23.20 or 4 per cent to DM569.00 following a presentation on Tuesday at which the group said it expected 1992 pre-tax and net profit to be below 1991 levels.

The implementation by the US of tariffs on steel imports from Europe failed to have a negative effect on the sector, analysts said. Mr Michael Geiger at County NatWest in London said that Thyssen and Preussag have been exempted from the US measures and were therefore not directly affected. Thyssen closed down 50 pfg at DM160.50 and Preussag, which announced a rise in earnings for the year to September, slipped DM5.40 to DM342.10.

Commerzbank was 30 pfg higher at DM244.80 ahead of its 10-month results today, while Deutsche Bank eased DM4.50 to DM672.50.

Volkswagen fell another DM8 to DM355 as analysts revise downwards 1993 forecasts following weekend reports of big 1992 losses.

MILAN was dragged down by weakness in Fiat and fears that interest rates would start to creep back up. At the Bank of Italy's repurchase tender yesterday, the average rate rose to 12.41 per cent from 12.23 per cent. The Comit index fell 8.51 or 1.9 per cent to 433.26 in turnover estimated at L180-200bn after L184bn.

The decline in Fiat accelerated after the share broke below the chart resistance point of L4,000. It was officially fixed L265 or 6.2 per cent lower at L3,975 and later sank to L3,905 in volume of 7.7m shares, of which 5m were traded off-market.

Ciga, the hotel group, dropped L116 or 10.1 per cent to L1,035 on continued worries about its financial position. Fondiaria fell L1,350 or 4.6 per cent to L28,250 as the speculative fizz evaporated from the stock.

Privatisation stocks showed some resistance to the downward pressure, as Sme eased L1.35 to L5,465 and Credito Italiano gave up L37 to L2,703.

ZURICH was affected by the weaker dollar and Ciba-Geigy was again the day's most active issue with overseas selling reported. The SMI index closed 5.3 down at 1,923.9 as Ciba registered shares slipped SFr4 to SFr578.

Swiss Re went against the trend with a rise in its bearers of SFr40 to SFr2,260 while the certificates firmed SFr2 to SFr466. Winterthur bearers and registered shares rose SFr20 to SFr2,700 and SFr2,480 respectively following an announcement that it had sold its 37 per cent stake in Nordstern of Germany to UAP of France and would also take a 3 per cent stake in the latter.

STOCKHOLM continued to decline on profit-taking following last month's strong gains. The Affärsvärlden general index lost 10.90 to 885.20 as turnover dropped to SKr77m from SKr793m.

Volvo B shares fell another SKr12 to SKr328 following the release earlier in the week of bad new car registration figures for November.

AMSTERDAM remained quiet with chemicals again featuring among the day's most actives. The CBS Tendency index put on 0.1 to 104.4. A large trade in Heineken was noted as the stock slipped Fl 2.60 to Fl 170.80. Daf registered another all-time low, losing 60 cents to Fl 6.20, as the company denied reports that it was to withdraw from a joint venture with Renault to build vans in the UK.

MADRID's general index lost 2.68 to 209.33 with Repsol slipping Pta40 to Pta2,545.

ASIA PACIFIC

Hong Kong's weakness remains in focus

Tokyo

TOKYO closed marginally higher after fluctuating in a tight range and activity was limited to small-lot trading by public funds and investment trusts, *writes Emiko Terazono in Tokyo.*

The Nikkei average closed 80.64 higher at 17,393.68 after a low of 17,254.76 in the morning and a high of 17,408.83 in the afternoon. After firming at the start, following Tuesday's approval of the government's fiscal supplementary budget by the House of Representatives, early gains were erased by investment trusts' selling. However, bargain-hunting by public funds supported prices in the afternoon.

Volume fell to 200m shares from 266m as advances led declines by 479 to 468 with 176 issues unchanged. The Topix index of all first section stocks gained 4.23 to 1,308.31 and in London the ISE/Nikkei 50 index rose 0.26 to 1,056.50.

Investors said that aside from public funds and dealers' trading, genuine buying was scarce. Some investors supported small-capital shares, and the second section rose for the 10th consecutive day.

Toy makers and video game makers were strong ahead of the Christmas season. Konami rose Y230 to Y2,950 and Sega Enterprises rose Y300 to Y10,000. Bandai, the largest toy maker, gained Y170 to Y3,750, while Takara rose Y130 to Y1,330.

Semiconductor equipment makers rose on prospects of a recovery in the US chip industry. Kyocera, the semiconductor ceramic package maker, rose Y70 to Y4,240. Toshiba, which has strong business ties with US companies, rose Y2 to Y622. Other high-technology issues fell on profit-taking, with NEC down Y7 to Y668 on earnings worries, and Matsushita Electric Industrial retreating Y10 to Y1,140.

Speculative favourites rose on short-term buying by dealers, with Nippon Carbon up Y33 to Y513 and Clarion rising Y30 to Y472.

On the over-the-counter market, TSD, the computer software maker, lost Y47 to Y573 after announcing that it expected to see losses on the pre-tax and after-tax level for the September year-end.

In Osaka, the OSE average gained 0.21 to 18,773.28 in volume of 30.2m shares. Nintendo, the video game maker, gained Y500 to Y11,000 on reports of an upward earnings revision by a leading Japanese broker.

Roundup

A further fall in Hong Kong depressed many of the region's markets yesterday.

HONG KONG fell nearly 2 per cent at the opening following Governor Chris Patten's statement that he intended to press ahead with democratic reforms. But bargain-hunting helped to lift the Hang Seng index off the day's low of 5,391.71 to close 91.23 down at 5,410.48 in turnover of HK$2.4bn.

Some analysts fear that the uncertainty could last until next February when the draft reform proposals are presented to the legislative council.

Mr Michael Franklin at Kim Eng Securities said it was likely that international fund managers were seeking to lock in their profits before the year-end and would attempt to buy back in early 1993.

AUSTRALIA drifted lower on worries about the domestic economy and the weak local currency. The All-Ordinaries index finished 5.8 lower at 1,438.5 in turnover of A$161m. On Tuesday the Australian dollar fell to a new five-year low against the US currency.

National Australia shed 10 cents to A$7.16 following an analysts' presentation. Commonwealth Bank rose 2 cents to A$6.00.

SINGAPORE eased with profit-taking in some blue chips. The Straits Times Industrial index fell 4.18 to 1,459.89 with 111.8m shares traded. Among active issues, DBS foreign shares fell 30 cents to S$13.30, SIA foreign 20 cents to S$16.30 and Sembawang Shipyard 20 cents to S$8.10.

KUALA LUMPUR rebounded on bargain-hunting and speculative buying and the composite index gained 4.28 to 641.51 with 168.5m shares traded.

SEOUL weakened after the government decided not to cut the rediscount rate. The composite index shed 9.73 to 650.20 in turnover of Won522.9bn.

TAIWAN fell in spite of a rise in the financial and paper sectors. The weighted index lost 11.06 to 3,635.70 in turnover of T$4.3bn after T$6.34bn.

MANILA rose on news that drilling for oil off the island of Palawan would go ahead. The composite index advanced 6.92 to 1,273.40 in turnover of 244.4m pesos.

NEW ZEALAND saw thin trading as the NZSE-40 index eased 13.78 to 1,525.56 in turnover of NZ$23m. Telecom and Fletcher Challenge led the market down with falls of 4 cents each to NZ$2.53 and NZ$2.25 respectively.

BANGKOK extended its gains with a good performance in the banking sector. The SET index rose 13.42 or 1.5 per cent to 874.75 in turnover of some Bt4.74bn. Thai Farmers Bank, the most active stock, jumped Bt40 to Bt720.

Santiago weighed down by overheated economy

Traders fear another rate rise, says Leslie Crawford

Santiago's stock exchange is suffering from a bout of year-end blues, due to fears of another rise in interest rates to cool down the country's overheated economy.

The latest projections show the Chilean economy growing by over 9 per cent in 1992. Inflation has also quickened in November and may overshoot the government's target of 13 per cent for the year.

So in spite of rises in interest rates in August and October, traders believe the central bank will try to dampen Chile's frenzied economic activity with a further adjustment in base rates before the end of the year.

High yields on government paper have siphoned off funds from the *bolsa*. The Ipsa index of the 40 most traded shares fell by 7 per cent in November, continuing a downward trend that began in August.

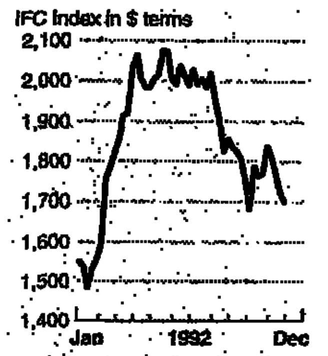
Compared to previous years, the performance of share prices has been modest this year. The Ipsa has risen by 17.7 per cent in nominal peso terms since January, or by 10.4 per cent in dollar terms, according to the International Finance Corporation. By contrast, Ipsa shares more than doubled their value last year.

"We do not see much year-end enthusiasm in the stock market given low third-quarter corporate earnings and high risk-free government yields," say investment analysts at Celfin, the managers of Solomon Brothers' Chile Fund.

Other factors are also undermining confidence. The government has announced a major reform of the capital markets in Chile, but details of the new regulations are being kept under wraps. They are expected to affect the equity portfolios of private pension funds – the biggest players in the stock market – and the ensuing uncertainty is holding back investors. Daily turnover has dropped to $6.5m from an average $11m in the past year.

Chile

IFC Index in $ terms



Source: Datastream

In addition, Chile's electricity companies, the most actively traded stocks, have taken a pounding following a very public row over electricity tariffs. These come under review every four years, and the government has ordered tariff cuts for the 1993-97 period. By protesting too loudly electricity companies appear to have triggered a run on their shares.

Enersis, the holding group which owns Chilectra, the biggest power distribution company in Chile, saw its shares plunge by 9 per cent in November, for a 24 per cent drop since their peak in June. Not even the company's healthy third-quarter earnings, up 34 per cent compared with the first nine months of 1991, have been able to revive interest in the shares.

The offloading of utility shares has also affected Endesa, the biggest power generator in Chile, even though the tariff cuts apply only to the electricity distribution companies. Endesa shares, which account for 30 per cent of daily trading volume, were down 6.3 per cent last month. They have lost 26.8 per cent of their value since June, even though profits were up by 22 per cent in the first nine months of the year.

Traders, however, are expecting a rally as Endesa was recently awarded an "investment grade" rating by Standard & Poor's, making it the only private-sector company in Latin America to attain international standards of creditworthiness.

One foreign investment fund manager believes that the market has overreacted to what is essentially good news. While investment and exports continue to grow at almost twice the rate of the economy, he thinks that fears of overheating are unwarranted.

Most traders believe the market will bounce back early next year, once the new legislation affecting Chile's capital markets is in place. They expect the Ipsa index to rise by 10 per cent in real terms between now and March, given the underlying strength of the economy and the growth potential of Chile's leading companies.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY DECEMBER 1 1992								MONDAY NOVEMBER 30 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	114.87	−0.2	110.84	90.33	94.36	111.70	−0.4	4.34	115.11	112.76	90.55	95.36	112.20	153.68	108.18	151.67
Austria (19)	138.76	+0.1	133.89	109.11	113.98	114.70	−0.3	2.46	138.66	135.83	109.08	114.87	115.06	186.70	137.66	166.59
Belgium (42)	134.88	+0.2	130.14	106.05	110.79	109.10	+0.0	5.65	134.61	131.86	105.88	111.52	109.05	152.27	134.08	132.64
Canada (113)	112.65	−0.5	108.69	88.57	92.53	104.90	−0.5	3.23	113.20	110.89	89.05	93.78	105.42	142.12	111.36	137.52
Denmark (34)	189.58	+0.7	182.93	149.08	155.73	158.77	+0.5	1.72	189.25	184.40	148.09	155.95	157.97	273.94	181.70	252.64
Finland (15)	72.55	+0.6	70.00	57.05	59.60	77.80	+0.2	1.81	72.09	70.62	56.71	59.72	77.61	89.80	52.84	76.01
France (99)	146.50	+1.4	141.36	115.20	120.33	123.87	+1.0	3.64	144.42	141.47	113.60	119.63	122.61	168.75	136.93	138.19
Germany (64)	106.90	+0.9	103.15	84.07	87.81	87.81	+0.0	2.59	105.95	103.80	83.37	87.78	87.78	129.69	102.51	108.89
Hong Kong (53)	223.13	−5.4	215.30	175.45	183.29	222.15	−5.3	4.05	235.97	231.15	185.63	195.50	234.53	262.28	176.36	169.48
Ireland (16)	137.80	+1.1	132.97	108.36	113.20	116.59	+0.2	4.70	136.34	133.56	107.25	112.95	116.32	173.71	122.98	153.58
Italy (77)	56.02	+0.3	54.05	44.05	46.01	58.61	+0.8	3.54	55.87	54.73	43.95	46.28	58.14	80.86	47.47	71.63
Japan (472)	104.96	−1.7	101.27	82.53	86.22	82.53	−1.7	1.02	106.72	104.54	83.95	88.43	83.95	140.95	87.27	130.58
Malaysia (69)	271.97	−0.8	262.43	213.86	223.40	265.48	−0.8	2.50	274.11	268.51	[illegible]	227.08	267.56	282.42	212.49	202.06
Mexico (18)	1592.84	−0.7	1536.96	1252.54	1308.42	5422.25	−0.8	1.11	1604.66	1571.88	[illegible]	1329.39	5465.11	1789.77	1185.84	1330.09
Netherland (25)	152.43	+1.0	147.08	119.86	125.22	123.77	+0.2	4.60	150.92	147.84	[illegible]	125.04	123.47	169.70	147.88	143.13
New Zealand (13)	42.68	−0.4	41.18	33.56	35.06	44.27	−0.7	5.23	42.87	41.99	[illegible]	35.51	44.57	48.52	37.39	47.99
Norway (22)	145.63	+3.2	140.52	114.52	119.63	128.43	+2.9	1.89	141.12	138.24	111.02	116.92	124.84	192.95	128.05	157.47
Singapore (38)	205.93	−0.4	198.71	161.94	169.16	155.26	−0.5	2.12	206.72	202.49	162.62	171.25	155.99	229.63	179.65	205.06
South Africa (60)	143.87	−1.4	138.82	113.13	118.17	155.27	+0.7	3.31	145.87	142.89	114.75	120.84	154.22	263.60	134.21	265.14
Spain (46)	115.48	−0.7	111.42	90.81	94.86	100.17	−1.1	6.00	116.34	113.96	91.52	96.38	101.27	161.72	107.10	148.21
Sweden (31)	167.18	−0.2	161.32	131.47	137.33	168.23	−0.7	2.33	167.56	164.14	131.82	138.82	169.48	200.28	149.69	167.40
Switzerland (60)	108.45	+1.8	104.64	85.28	89.09	95.10	+0.2	2.25	106.52	104.34	83.80	88.26	94.89	122.37	95.99	93.25
United Kingdom (227)	170.41	+2.0	164.43	133.99	139.97	164.43	+0.5	4.46	167.02	163.61	131.37	138.35	163.61	200.07	161.86	171.26
USA (522)	176.07	−0.2	169.89	138.46	144.63	176.07	−0.2	2.89	176.33	172.73	138.72	146.09	176.33	176.33	160.92	155.17
Europe (779)	135.61	+1.4	130.85	106.64	111.40	121.83	+0.4	3.86	133.76	131.03	105.23	110.82	121.37	156.88	131.31	136.98
Nordic (102)	150.75	+0.3	145.46	118.54	123.83	136.53	−0.1	2.11	150.27	147.20	118.21	124.49	136.65	188.52	141.24	171.03
Pacific Basin (713)	109.31	−1.8	105.48	85.96	89.79	87.75	−1.8	1.38	111.26	108.99	87.53	92.18	89.35	141.97	93.70	132.06
Euro – Pacific (1492)	119.95	−0.3	115.74	94.32	98.53	101.44	−0.8	2.51	120.36	117.90	94.68	99.71	102.27	145.21	113.80	134.35
North America (635)	172.14	−0.2	166.10	135.38	141.42	171.24	−0.2	2.91	172.42	168.90	135.65	142.87	171.52	172.42	158.70	154.00
Europe Ex. UK (552)	114.76	+0.9	110.74	90.26	94.29	98.78	+0.3	3.41	113.72	111.40	89.48	94.23	98.50	132.98	111.33	116.39
Pacific Ex. Japan (241)	152.08	−2.4	146.74	119.61	124.94	140.53	−2.4	3.78	155.84	152.66	122.62	129.12	144.05	175.31	149.00	146.65
World Ex. US (1683)	120.87	−0.4	116.63	95.06	99.29	103.43	−0.8	2.53	121.32	118.84	95.44	100.51	104.25	146.91	115.99	136.60
World Ex. UK (1978)	135.52	−0.5	130.76	106.57	111.33	121.95	−0.6	2.48	136.25	133.47	107.19	112.89	122.72	150.58	127.21	139.03
World Ex. So. Af. (2145)	138.62	−0.3	133.76	109.02	113.88	125.39	−0.5	2.68	138.95	136.15	109.35	115.16	126.05	153.05	130.04	141.01
World Ex. Japan (1733)	157.58	+0.2	152.05	123.83	129.47	150.82	−0.1	3.26	157.25	154.04	[illegible]	130.30	150.97	165.40	151.93	149.15
The World Index (2205)	138.54	−0.3	133.68	108.95	113.81	125.70	−0.5	2.68	138.92	136.09	109.29	115.10	126.35	153.70	130.66	141.84

Constituent change 2/12/92: Name change: Nippon Mining to Nikko Kyodo (Japan) Latest prices were unavailable for this edition

FINANCIAL TIMES SURVEY

MANAGEMENT BUY-OUTS

SECTION III

Thursday December 3 1992

Recession has seen the buy-out gain widespread acceptance as a way of restructuring businesses. But times are tougher for backers as deals fall in value and more effort is required to put them together. Charles Batchelor reports

Proving their worth

MANAGEMENT buy-outs have had a good recession. They have proved their worth as a means of restructuring companies and almost redeemed the mistakes of the 1988-89 boom. Nothing, it appears, succeeds quite like a buy-out in motivating managers and in revitalising tired businesses.

Few corporate boards will now reject the idea of selling a non-core or under-performing business to management as an alternative to a sale a corporate buyer. ICI, BP and Hanson have all disposed of parts of their operations by means of a buy-out in recent months.

Some idea of the scale of activity in the UK can be gained from the fact that there were more buy-outs in 1991 than acquisitions of independent companies. Total buy-out activity over the past decade has amounted to nearly 4,200 deals worth more than £26bn at current prices, according to Nottingham University's Centre for Management Buy-Out Research.

Buy-out transactions have declined throughout Europe over the past two years from the feverish levels of 1988-89. But they still accounted for 55 per cent of all UK venture capital investments by value last year and for 35 per cent of European venture capital spending.

That is the good news. But life has grown tougher for the organisations which arrange and finance buy-outs. They are having to devote more effort to putting deals together and, with less debt finance available to gear up the equity, face the prospect of lower returns in the next few years.

The size of deals and hence the return for the effort involved has also fallen. The largest buy-out completed by the end of November was the £140m purchase of Gaymer Group Europe – owner of the Olde English cider, Babycham and Sanatogen Tonic Wine brands – from Allied-Lyons. Compare this with the late 1980s when every year set a new record: MFI valued at £718m in 1987, Reedpack worth £805m in 1988 and Gateway at £2.37bn in 1989.

The number of large buy-outs – those worth more than £50m – is closely linked to the economic cycle because the bigger deals are more dependent on the willingness of the banks to provide debt finance, according to a recent study by London Business School. But investment in smaller transactions – valued at less than £25m – remains fairly constant throughout the economic cycle because these deals usually have lower levels of gearing, the researchers found.

Overall, 1992 seems set to mark a slight recovery in the UK buy-out sector after two years of decline. Forty four large deals (each valued at £10m or more) worth a total of £1.47bn were completed in the first nine months of the year. This compares with the same number of deals, although with a total value of £1.88bn, completed in the whole of 1991, according to accountants KPMG Peat Marwick.

Buy-out fund managers believe there will a sharp increase in the number of deals completed in the final three months of the year. "There are more signs of life in the market," says Mr Hugh Mumford, managing director of Electra.

"Financially stretched companies which deferred a decision to dispose of parts of their business now realise they have to sell." Several vendors are under pressure to complete disposals by the end of the year so that they can include the sale price in the 1992 accounts, says another buy-out specialist.

This pressure to complete a sale has meant that many vendors have become more realistic about the price they can expect. Some deal-makers remain concerned about price levels however. This is one reason Morgan Grenfell Development Capital has not completed a large deal in the past year, according to Mr Robert Smith, chief executive.

Deal activity is only one measure of the buy-out sector's success, however. Realisations are just as crucial to its health. MFI, seen by many as bell-wether of the buy-out industry, finally achieved a public listing, at a valuation of £669m, in July but in general "exit" options have narrowed.

After a brief opening of the listing "window" in the immediate aftermath of the Conservative's election victory in April the stock market has not looked kindly on flotations.

The Unlisted Securities Market and even the small end of the main stock market lack liquidity and are less attractive to company boards, while corporate purchasers have had less time to look for acquisitions as they wrestle with their own problems.

"We have been hanging on longer to our buy-out investments than in boom times," says Mr Stephen Curran, chief executive of Candover Investments. "Returns will come down over the next few years," forecasts Mr Mumford. "Big returns were made from leverage in the 1980s. To achieve results in future the venture capital community will have to become more creative."

A few years ago venture capitalists saw a profitable market in taking public companies private again once the gloss of a public listing wore off. But these deals have proved difficult. The institutions are reluctant to see the diversity of their listed company portfolios reduced and frequently suspect managers of misusing inside information on the business.

The banks are often reluctant to finance such deals because of problems in securing their lending and it is frequently difficult to suggest a plausible "exit" strategy when the buy-out is removing the most obvious exit of all. After six "going private" deals in 1991, only one deal – of Continuous Stationery, the Prontaprint franchise group – has been done this year.

In October Mr Alan Sugar, founder of Amstrad, the consumer electronics group, announced plans to take his company private but ran into criticism over the price he was offering for the shares and the amount of information provided on his future plans for the company. Buy-out fund managers believe the number of companies going private will be restricted to businesses still dominated by a strong founding entrepreneur but, as Amstrad illustrates, even these deals are not trouble-free.

Public-to-private deals may be difficult to do but the privatisation of public sector organisations continues apace. Local councils, bus operators and port authorities have been selling parts of their operations while the proposed privatisation of British Coal opens up further opportunities.

British venture groups have played a leading role in spreading equity financing techniques throughout Europe but some British groups are now more cautious about doing deals there. Eastern Europe appears to offer great opportunities as state industries are privatised.

However UK groups are wary. "A huge amount of work needs to be done on the physical, legal and accounting infrastructure in eastern Europe," says Mr Michael Smith, managing director of Citicorp Venture Capital. In spite of this Citicorp has backed deals in Hungary and has been more active than most in financing buy-outs in continental Europe.

Throughout continental Europe, buy-out activity declined by an estimated 15 per cent in 1991 with just 354 deals being completed, according to the Centre for Management Buy-Out Research. The total value of deals rose slightly however, from £4bn to £4.2bn.

The buy-out has gained widespread acceptance as a means of restructuring overstretched businesses and inefficient national economies. Even if nothing else emerges UK funds will have a job to do arranging more sensible financial structures for the over-borrowed buy-outs of the late 1980s.

But their main challenge will be to continue to give investors the high levels of return they have come to expect. Many UK pension funds and other institutions are reviewing their commitment to unquoted investments as an asset class. The buy-out specialists will have their work cut out to meet their expectations.

IN THIS SURVEY

Editorial production: Sarah Murray

TABLES IN THIS SURVEY

Estimate of total UK MBOs October 1 1992

	No.	Value £m	Av. size £m
1980	100	40	0.4
1981	180	130	0.7
1982	200	550	2.8
1983	220	240	1.1
1984	200	270	1.4
1985	250	1,070	4.3
1986	300	1,300	4.3
1987	350	3,230	9.2
1988	400	5,070	12.7
1989	500	6,490	13
1990	550	2,830	5.1
1991	500	2,600	5.2
1992 to date	390	1,990	5.1
Total	4,140	25,810	6.2

Source: KPMG Corporate Finance

Note: figures are cumulative since 1981

Source: KPMG Corporate Finance

Charles Batchelor unravels the tangled web of industry jargon

Of collars and cylinders

EVERY trade or profession has its technical terminology or jargon and the buy-out sector is no exception. Buy-outs in Britain have traditionally been handled by venture capitalists so some of the terms derive from venture and development capital areas.

Other expressions have come from the world of corporate finance. But whatever their provenance, they can be confusing to buy-out teams, many of which have no previous experience in this field.

Bimbo
A somewhat controversial term coined by 3i to describe a deal involving both existing and outside managers: a buy-in/management buy-out or bimbo. About half of all deals take this form.

Bought deal
This is when a deal maker provides all of the finance needed for a buy-out deal and then sells on or syndicates part of the funding to other investors later. Carried out by the larger providers of finance when speed or confidentiality are particularly important for the deal to succeed.

Bridge financing
Short-term funding provided when a company is about to raise a new round of equity or is about to go public.

Business plan
The document put together by managers to justify their application for finance. Should contain summaries of past and projected profit and loss accounts, balance sheets and cash flows.

It should also include details of products and services, markets, future strategy and profiles of the managers. A warning, however: don't get too carried away. Most financiers will not go beyond the two-page executive summary.

Caps, collars and cylinders
Clauses in buy-out deals which limit the extent to which the interest rate charged on borrowed funds can rise or fall. A safeguard against borrowing costs rising to the point where they endanger the company. Such agreements usually have a limited life of one or two years. The longer the period of cover the more expensive the collar or cap.

Carried interest
A stake taken in the investee company by the venture capital or buy-out fund managers. Can be in the form of options.

Deal flow
The rate at which investment propositions come to the deal-maker or financier. Many claim to select only one deal in 50, although deal flow numbers are treated by some as a sort of virility symbol.

Development Capital
Later stage finance for more established companies which are profitable or nearly profitable. Less risky generally than early stage finance.

Due diligence
Detailed analysis and appraisal of the background of the entrepreneur and his business plan.

Earn-out
Either a formula for relating the final purchase price of a company to actual future earnings or a means of encouraging management to perform by payment on the basis of future performance (see also Ratchet).

Employee buy-out
A deal involving not just the top management but also all or a large number of the more junior employees of the organisation. The difficulty of involving large numbers of employees without disclosing a deal prematurely has meant that relatively few of these deals have been done.

Some managers get round this by staging a buy-out and then involving other staff later at a later stage.

Employee share ownership plan (Esop)
A trust which is established to acquire shares in a company for subsequent allocation to employees over a number of years.

Exit
The point at which the financier sells his holding in the buy-out company either through a trade sale to a larger company, by the management buying out the other investors to assume complete control, or by a stock market flotation. It is essential the managers and their financial backers agree from the outset on the exit strategy.

Gearing or leverage
The ratio of debt to equity in a company's capital structure. Intermediate forms of capital, such as redeemable preference shares and convertible loans, can complicate the calculations and mean a variety of ratios may be applied to the same company.

Hands-on/hands-off
The degree to which an investor in a buy-out becomes involved in its management. A hands-on investor would normally nominate a non-executive director to the board and might commit some of its other executives to help out if the company ran into difficulties. Hands-off investors would have little or no active involvement in the company.

Internal Rate of Return (IRR)
Different investors work this out in different ways but the term generally refers to annual compound rate of return to the investor over a given period of time.

Returns normally include dividend distributions and profits from either disposals or a fair valuation of the buy-out company.

Junior debt
Loans which rank after secured or senior debt for repayment in the event of a default.

Junk bonds
High yielding, unsecured debt used in US buy-outs. Since the debt is in the form of a bond certificate, it can be bought and sold more easily than the mezzanine loans (qv) used to finance UK buy-outs.

Lead investor
Venture capitalist or other deal-maker with the largest share in the syndicated investment. He or she usually initiates the deal and then takes a hands-on role on behalf of the other partners.

Lemons and plums
Bad deals and good. Bad investments usually go wrong before the good ones produce a profit: the lemons ripen before the plums.

Leveraged buy-out
Similar to a management buy-out, though usually applied to US deals where the transaction will have been initiated by a financial group rather than the management. The name refers to the high level of borrowing which the company takes on, using the assets being purchased as leverage.

When British buy-outs seemed to be going the way of their US counterparts, with large, highly speculative deals being put together by City financiers, the term started to be applied to UK buy-outs. Nowadays the idea of high levels of leverage is a distant memory.

Living dead
Companies which are just about trading profitably but which are unlikely to do really well.

A slightly dated term used about investments the deal-makers prefer to forget.

Lock-out agreement
An agreement to give the buy-out team time to negotiate the purchase of their company free of pressure from other bidders.

Management buy-in
An offshoot of the management buy-out industry. The purchase of a business by one or more outside managers with the help of a group of financial backers.

The term was applied indiscriminately in the late 1980s to any bid which involved a well-known City figure on the grounds that a buy-in sounded more constructive than the hostile takeover that it usually was.

Buy-ins are now seen as being considerably riskier than buy-outs because they involve an outside management team which does not know the company as well.

Many deals are neither pure buy-ins nor buy-outs but bimbos (qv).

Management buy-out
The purchase of a business by its existing management with the help of a group of financial backers.

The managers put up a relatively small amount of the total finance but usually gain a disproportionately large share of the equity. Buy-outs are funded largely by loans secured on the assets of the company itself.

Mezzanine finance
This refers to loans, that are usually unsecured, which rank after secured or senior debt but before equity in the event of the company failing.

To compensate for the greater risk, they usually carry interest 1 to 3 percentage points above secured loans and often carry an equity "kicker" to give the lender a stake in the equity.

Newco
The management buy-out is usually carried out through a newly created company which is normally referred to as a newco.

Preferred ordinary shares
This refers to the ordinary shares which are taken up by the outside investors in a buy-out.

These shares rank ahead of the plain ordinary shares which are owned by the management in terms of dividends and the pay-out in the event of a winding-up.

Ratchet
An incentive arrangement whereby the managers get a bigger share of the equity if the venture performs well. Sometimes managers forfeit shares if they do particularly badly (see also Earn-out).

Second round financing
Increasingly needed to help buy-outs which have run short of funds. Can also be given to businesses which have done well and are able to raise new money for further investments.

Senior debt
Secured debt which ranks first in terms of repayments in the event of a default (see also junior debt).

Slippage
Happens when the buy-out company starts to eat up more cash than expected because development costs exceed budget or sales grow too slowly.

Syndicated investment
An investment which is too large and risky to be handled by one investor and which needs to be shared among several partners.

Fewer deals are syndicated in present market conditions, while syndicates also involve fewer participants.

This is partly because the smaller deals do not require so many players. However it also means that if trouble arises, fewer people have to be consulted in order to sort out the mess.

Vendor finance
Finance provided by the vendor in the form of either a deferred payment or a retained minority stake in the bought-out company, usually in the form of loan notes.

It allows the vendor to share in the profits of the company if it does well and can also be used to boost the sale price, thereby impressing the vendor's shareholders.

Venture capitalist
This is the deal-maker who provides the funds and the advice for entrepreneurs who are either starting a business from scratch or staging a management buy-out.

Leading debt arrangers

	Total number	Total value of debt £m	Av. value of debt £m	Number of investments
Bank of Scotland	64	1,168	18	112
Nat West/County NatWest	61	1,519	25	83
Barclays/BZW	42	817	19	65
Midland/Samuel Montagu	29	556	19	43
Charterhouse/RBS	21	861	41	38
Bankers Trust	19	1,417	75	20
Standard Chartered/CWB	18	1,001	56	30
SecPac	9	247	27	14
Citibank/Citicorp	8	620	78	13
Lloyds	7	81	12	23
Kleinwort Benson	6	144	24	15
Warburg	5	2,039	408	8
Chemical	4	1,430	358	6
Continental	4	87	22	11
Scandinavian	4	59	15	4
3i	4	24	6	25
Manufacturers Hanover	3	50	17	3
Credit Agricole	3	47	16	15
CIBC	3	28	9	15
NM Rothschild	3	52	17	6
Den norske	3	21	7	7
TSB	2	19	6	4
Toronto-Dominion	2	37	19	11
Industrial Bank of Japan	1	68	68	14
Westpac	1	35	35	11
Creditanstalt	1	7	7	19
Bank of Nova Scotia	1	7	7	8
Long Term Credit Bank of Japan				17
Allied Irish				11
Dai-Ichi Kangyo				10
Nippon Credit				10
Fuji				8
Sumitomo				8
Others	30	983	33	
None/not known/(duplication)	20	-145		
	479	[illegible]	35	

Qualification: In £10 million plus deals, 3 deals arranged or 8 investments made
Source: KPMG Corporate Finance

MANAGEMENT BUY-OUTS 3

THE DEAL LEADERS

Industry participants begin to thin out

BUY-OUTS have proved a profitable niche for the British venture capital industry – so profitable, in fact, that while interest in start-ups and other early-stage deals has waned, many venture capitalists have made buy-outs the focus of their activities.

A growing number of the smaller venture capital funds which backed early stage ventures have ceased making new investments.

So far, the attrition visible elsewhere in the industry has yet to show itself among the buy-out funds but, many participants expect, it will not be a long time coming. "The industry is rationalising itself and polarising around a dozen or so players," says Mr Ian Forrest, managing director of Montagu Private Equity (formerly Midland Montagu Ventures).

The reasons for this thinning out of the industry are not hard to find. Poorly performing funds will be unable to raise new finance from outside investors or, if they are "captive" institutions owned by a larger financial services group, will be unable to persuade head office that they deserve more money.

The decision earlier this year by Hill Samuel, the merchant banking part of the TSB group, to put its development capital arm up for sale, showed that even the captive organisations are not as secure as was previously assumed.

Hill Samuel's move reflected a decision to concentrate on activities which provided a quicker pay-off than development capital.

The increased vulnerability which the captive funds feel has persuaded their managers that they must be more active in promoting their activities within their own organisations.

"We make sure that we publicise internally any cross-referral business we create," says one.

So which are the most active buy-out funds and those most likely to form the slimmed-down core of the industry in a few years' time?

Any list of the leading players active in the UK market would include Candover, Charterhouse Development Capital, CINVen, Morgan Grenfell, 3i, Phildrew Ventures, Schroder Ventures, County NatWest, Montagu Private Equity and Electra.

A shorter list of buy-out teams active in continental Europe would also include Candover, 3i and Schroders, but with the addition of other organisations such as Citicorp Venture Capital.

Membership of either of these lists denotes a serious commitment to the buy-out field but does not necessarily mean that all the funds have been active recently. Morgan Grenfell Development Capital has not made a large buy-out investment for nearly a year because it has not seen a sufficiently attractive deal, says Mr Robert Smith, chief executive.

3i continues to head the KPMG Peat Marwick deals table, completing 15 new deals in the year to the end of September 1992, but has not been noticeable bidding for the largest deals recently, several other buy-out specialists report.

This may reflect a decision by 3i to close what used to be known as its City office and to put more effort into helping its area offices to do larger deals.

Other leading funds include Midland Montagu Ventures, which has completed seven deals in the past year, Schroder Ventures with six deals, and CINVen, which manages pension funds for the British Coal, British Rail and Barclays Bank, with four deals.

One factor which is likely to lead a further concentration of the buy-out industry is the desire for many players to take a deal completely on their own books or to limit the size of the syndicates they form.

The large, unwieldy syndicates put together to finance deals in the late 1980s were not well suited to dealing with the problems experienced by their portfolio companies. So deal leaders are now only willing to work together with small teams of like-minded funds they feel they can trust.

Syndicates – such as those which backed the buy-out of Mecca Leisure in 1985 involving 23 members, and that of Mallinson Denny in the same year with 19 members – are unlikely to be repeated.

The average number of investors in a £100m-£250m in 1986 was 16, Electra has calculated. By 1991 it had fallen to four members. Deals of between £10m and £25m involved on average six investors in 1986 but only two in 1991. "People want to take bigger stakes in companies because they want to be closer to them," says Mr Hugh Mumford, Electra managing director. "Investors don't want to be passive."

"The shortage of larger, high quality investment opportunities has led to the originators of deals hanging on to what they have," says Mr Gordon Bonnyman, managing director of Charterhouse Development Capital.

"If they do syndicate they choose partners who can reciprocate."

3i and Prudential Venture Managers went a step further with the announcement in June of a collaboration agreement to underwrite jointly medium-sized and large buy-outs and buy-ins – those with a purchase price of £15m or more.

Five deals have already been jointly funded under this arrangement which actually took effect from the beginning of the year.

But to concentrate solely on the impending concentration among the larger buy-out funds would be to ignore the large number of smaller deals. The big transactions have disappeared but considerable activity still takes place in deals valued at less than £5m. A broad range of equity funds and banks continues to finance these deals, some which use only debt.

The shake-up among the banks providing debt for buy-outs has been no less severe than among the equity funds. The banks, many of them from the US, which piled into the highly leveraged deals of the late 1980s, have departed. For the past year or so the debt side of buy-out funding has been dominated by a trio of British banks, the Bank of Scotland, National Westminster Bank and Barclays Bank.

These three still have a commanding role but there are signs that other banks are starting to revive their buy-out financing teams, says Mr Anton Fawcett, who heads Barclays' buy-out activities. Two UK merchant banks, Morgan Grenfell and NM Rothschild have begun providing buy-out debt while continental European banks, particularly the Swiss, are showing increasing interest.

Charles Batchelor

Deal Leaders

	Total No	Total value of deal £m	Av. value of deal £m	Number of investments	Address	Phone number
3i	50	1,456	29	96	91 Waterloo Road, London, SE1 8XP	071-928 3131
Candover Investments	26	1,857	71	39	20 Old Bailey, London, EC4M 7LN	071-489 9848
Charterhouse DC	22	2,650	120	58	85 Watling Street, London EC4M 9BJ	071-248 4000
Citicorp	21	693	33	49	Citibank House, 335 Strand, London, WC2R 1LS	071-438 1488
Schroder Ventures	19	738	39	27	20 Southampton Street, London, WC2E 7QG	071-632 1000
County NatWest Ventures	19	661	35	73	135 Bishopsgate, London, EC2M 3UR	071-375 5000
CINVen	17	1,480	87	86	Hobart House, Grosvenor Place, London, SW1X 7AD	071-245 6911
Midland/Samuel Montagu	17	876	52	51	10 Lower Thames Street, London, EC3R 6AE	071-260 9911
Bankers Trust	14	1,823	130	10	1 Appold Street, Broadgate, London, EC2A 2HE	071-982 2500
Phildrew Ventures	14	388	28	39	Triton Court, 14 Finsbury Square, London, EC2A 1PD	071-628 6366
Granville	10	145	15	10	Mint House, 77 Mansell Street, London E1 8AF	071-488 1212
Electra	10	1,028	103	41	65 Kingsway, London, WC2B 6QT	071-831 6464
Kleinwort Benson DC	10	541	54	30	10 Fenchurch Street, London, EC3M 3LB	071-956 6600
Barclays DC/BZW	10	289	29	39	Pickfords Wharf, Clink Street, London, SE1 9DG	071-407 2389
Lloyds DC	7	392	56	49	48 Chiswell Street, London, EC1Y 4XX	071-600 3226
Murray Johnstone	7	99	14	25	7 West Nile Street, Glasgow, G1 2PX	041-226 3131
Prudential VM	7	403	58	55	Audrey House, Ely Place, London, EC1N 6SN	071-831 7747
Morgan Grenfell DC	6	452	75	12	23 Great Winchester Street, London, EC2P 2AX	071-588 4545
Mercury Asset Management	6	2,722	454	31	33 King William Street, London, EC4R 9AS	071-280 2800
MIM DC	5	121	24	20	11 Devonshire Square, London, EC2M 4YR	071-626 3434
Causeway Capital	5	95	19	10	7 Hanover Square, London, W1R 9HE	071-495 2525
Legal & General Ventures	5	176	35	37	9 Queen Victoria Street, London, EC4N [illegible]	071-489 1888
Foreign & Colonial Ventures	5	112	22	17	8th Floor, Exchange House, Primrose Street, London, EC2A 2NY	071-782 9829
Chase Manhattan	4	240	60	[illegible]	Woolgate House, Coleman Street, London, EC2P 2HD	071-726 5000
Swiss Bank Corp	4	144	36	[illegible]	1 High Timber Street, London, EC4V 3SB	071-329 0329
Salomon	3	80	27	3	111 Buckingham Palace Road, London, SW1W 0SB	071-721 2000
CIBC Capital	3	50	17	3	Cottons Centre, Cottons Lane, London, SE1 2QL	071-234 6000
SUMIT	3	42	14	14	SUMIT House, 12 Newhall Street, Birmingham, B3 3EJ	021-200 2244
Flemings	3	221	74	8	25 Copthall Avenue, London, EC2R 7DR	071-638 5858
Apex Partners	3	151	50	9	15 Portland Place, London W1N 3AA	071-872 6300
Bank of Boston	3	66	22	8	39 Victoria Street, Westminster, London, SW1H 0ED	071-799 3333
Gartmore	3	32	11	9	16-18 Monument Street, London EC3R 8QQ	071-782 2000
Hambros	3	64	21	9	41 Tower Hill, London, EC3N 4HA	071-480 5000
Bank of Scotland	2	48	24	5	PO Box No12, Uberior Hse, 61 Grassmarket, Edinburgh EH1 2JF	031-442 7777
Baring Capital Investors	2	449	225	5	140 Park Lane, London, W1Y 3AA	071-408 1282
Hambro Magan	2	292	146	[illegible]	32 Queen Anne's Gate, London, SW1H 9AB	071-233 1400
James Capel	2	58	29	2	6 Bevis Marks, London, EC3A 7JQ	071-283 5230
Unity Trust	2	33	17	4	130 Minories, London EC3N 1NT	071-481 3110
CWB Partners	1	125	125	12	37/38 Gracechurch Street, London, EC3V 0AX	071-623 8711
Norwich Union VC	1	13	13	10	PO Box 53 Surrey Street, Norwich NR1 3TE	0603 622200
ECI	1	12	12	21	Brettenham House, Lancaster Place, London, WC2E 7EN	071-606 1000
Scottish Eastern Inv.				11	Saltire Court, Edinburgh, EH1 2ES	031-229 5252
Sun Life				10	107 Cheapside, London, EC2V 6DU	071-606 7788
Others/no longer active	41	1,674	48			
None/not known/(duplication)	19	2,180				
TOTAL	379	21,127	56			

Qualification: £10million plus deals, 2 deals led or 10 investments made

Source: KPMG Corporate Finance

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MANAGEMENT BUY-OUTS 4

Use of mezzanine in UK MBOs over £10m

	MBOs using mezzanine			Total MBOs				
	Number	Amount of mezzanine £m	Total value of deals £m	Number	Total value of deals £m	% of MBOs using mezzanine	% of deal covered by mezzanine	Average size of mezzanine layer £m
1981-84	-	-	-	25	880	-	-	-
1985	5	123	430	23	870	22	29	25
1986	7	96	380	27	940	26	25	14
1987	13	207	1,510	33	2,750	39	14	16
1988	26	280	1,870	55	4,510	47	15	11
1989	38	864	4,830	71	5,860	54	18	23
1990	33	208	1,140	58	2,010	57	18	6
1991	16	132	860	44	1,880	36	15	8
1992 (to date)	9	66	490	43	1,450	21	13	7
	147	1,976	11,510	379	21,130	39	17	13

Source: KPMG Corporate Finance

Lenders are becoming more involved in the structure of the deal

Banks take a tough line

FORGET about the venture capitalists and the other providers of equity finance: the key to completing a buy-out nowadays is the banker.

The banks are still recovering from the losses and provisions they made on some of the highly geared deals completed in the late 1980s and take a far more cautious attitude to any lending secured on future cash-flows rather than more tangible assets.

"Banks are no longer competing for market share but rather are seeking quality assets and good returns," says Mr Anton Fawcett, head of buy-out finance at Barclays Bank.

In the past banks would often allow a buy-out to breach lending covenants only to see the equity provider walk away when the company's fortunes continued to deteriorate. If the bank had pulled out when the terms of the loan agreement were first breached it could have probably recovered all its money, he says.

The result has been that banks are usually reluctant to lend more than half of the value of the deal and they insist on interest cover of at least two times from projected profits.

"It is still difficult to get debt in quantity on larger deals," says Mr Robert Smith, chief executive of Morgan Grenfell Development Capital.

Figures from accountants KPMG Peat Marwick show that the ratio of debt and mezzanine finance to equity fell back to 1.3 to 1 in the first half of 1992 from 1.7 to 1 in the second half of 1991.

The decline from the peak of the buy-out market in 1989 is even more pronounced. In the second half of that year the ratio was 5.9 to 1.

Growing familiarity with buy-outs has meant that the banks now look more closely at projected cash flows and interest cover ratios

A more detailed break-down of debt structures carried out by the Nottingham University Centre for Management Buy-Out Research showed that in smaller deals, valued at under £10m, in the first half of 1992 equity and debt each accounted for 44 per cent of total finance with the balance made up by small amounts of mezzanine and loan notes.

In deals of more than £10m, equity accounted for 41 per cent and debt for 38 per cent.

Growing familiarity with buy-outs has meant that the banks now look more closely at projected cash flows and the interest cover ratio than at balance sheet ratios.

This reduction in gearing has meant that the equity providers have had to reduce their expectations of returns. Some are now starting to worry that deals are "under-geared". The result is that even greater pressure is being put on the venture capitalists to force down the price of deals. If vendors will not go along with this then the deal will often not get done.

The role of mezzanine – high-yielding unsecured lending often with equity conversion rights – has also been squeezed as deal prices have fallen.

Mezzanine came in to bridge the gap between what the equity houses were willing to provide and bank lending in the 1980s but is now in less demand.

Slightly more mezzanine was used in the first half of 1992 than in 1991 but over the past four years the trend has been downwards. "Large deals still need mezzanine but smaller deals can be put together with just equity and debt," says Mr Ian Forrest of Montagu Private Equity (formerly Midland Montagu Ventures).

He also estimates that nearly 70 per cent of deals have some form of participation by the vendor company.

"This can be more flexible than mezzanine from an independent institution," Mr Forrest says. But some other providers of buy-out finance take the view that vendor loan notes complicate a deal, especially if something goes wrong and more money is needed later.

What has become noticeable over the past year is an increased desire on the part of the banks to involve themselves more closely in the terms of the deal. This is not always welcomed by the equity providers.

"The bankers are trying to take over the deals," says one venture capitalist, who fought off an attempt by one bank to obtain a power of veto of changes in the company's articles of memorandum.

Analysis of gearing of UK MBOs over £10m

Period	Total funding £m	Equity £m	Mezzanine £m	Debt £m	Gearing (E:M+D)	Mezzanine (% of total)
4 years to						
Dec-84	880	370	0	490	1.3	0
Dec-88	9,070	2,540	710	5,820	2.6	8
6 months to						
Jun-89	1,710	430	160	1,120	3.0	9
Dec-89	4,150	600	710	2,840	5.9	17
Jun-90	1,240	300	140	800	3.1	11
Dec-90	770	260	60	450	2.0	8
Jun-91	700	320	30	350	1.2	4
Dec-91	1,180	430	100	650	1.7	8
1992 (to date)	1,450	640	70	740	1.3	5
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: KPMG Corporate Finance

The banks are acting tough because the shortage of debt finance puts them in a stronger position and because they realise they needed to take a closer interest in the deals they were backing.

In the early days the banks relied on the venture capitalist to carry out an appraisal of the management and the company that they were backing.

"After one or two bad experiences we came to realise that this was a job we could not delegate," says Mr Fawcett. Barclays now often commissions a survey of the market in which the buy-out will be operating as well as carrying out a financial investigation of the company.

The banks have also grasped the opportunity to increase their interest charges on buy-out lending and to push up their fees. They would aim for around 2 per cent over base rate and 1.5 to 2 per cent in up-front fees although they might not always achieve these levels.

In the longer term, some venture capitalists believe, the financial backers of buy-outs will have to pay increasing attention to obtaining a running yield on their investments as well as the capital gain on realisation.

This is because buy-outs are taking longer to reach an "exit" than some thought. Less than a quarter of the buy-outs completed between 1981 and 1991 have obtained an "exit", according to the Centre for Management Buy-Out Research.

"More deals will have a yield element," says Mr Gordon MacLean, a director of 3i. This is likely to lead to increased use of, for example, preference share capital and will increase pressures on management to perform.

Charles Batchelor

Smaller firms prefer to dispose of a buy-out through trade sales

Flotation seen to lack lustre

FOR a few short weeks after the Conservative election victory in April the buoyancy of the London stock market prompted a surge of flotations of buy-out companies. In July MFI Furniture Group, Kenwood Appliances, Anglian Group and Taunton Cider were listed with a combined market capitalisation of more than £1.1bn.

The continuing recession and political uncertainty have since made a public listing unattractive for all but a handful of companies.

Such swings in the political and economic cycle are to be expected but of greater concern to managements and the organisations which finance buy-outs is a more fundamental decline in the opportunities for flotation.

While the early 1980s saw the launch of the Unlisted Securities Market (USM) followed in 1987 by the creation of the Third Market, recent years have led to a narrowing of the options for flotation.

The failure of the Third Market to attract sufficient high quality stocks and attempts to make the main market more accessible have brought about the demise of the Third Market and a proposal by the stock exchange to wind down the USM.

Big Bang and the subsequent restructuring of the UK stock market have led to a concentration on the larger quoted stocks

Even the main market has been unable to provide sufficient liquidity for the smaller quoted company. A number of large securities houses have withdrawn from making markets in many of the smaller stocks.

'The Unlisted Securities Market is a shadow of what it was at its peak'

"The USM is a shadow of what it was at its peak," says Mr Michael Smith, managing director (Europe) of Citicorp Venture Capital.

"We probably wouldn't take a company to the USM now but would encourage it to wait until it was of a size to go to the main market." Even there the absence of market makers at the bottom end is worrying.

Some buy-out financiers say that they never used the USM anyway because it was only a half-way house to a full flotation.

Others point out that some companies which were never suited to a listing were floated in the heady days of the late 1980s.

But even if excesses were committed during the boom, the effective removal of flotation as an option for the smaller company represents a loss to the buy-out sector. It may also have implications for the way deals are structured in future.

"People will have to be more conscious of the need for a running yield rather than just an exit realisation to get a reasonable return," says Mr Gordon MacLean, responsible for larger buy-outs at 3i. This could lead to a greater emphasis on, for example, preference shares in deal structures.

In the short term, at least, managers of buy-out companies may have mixed feelings about the narrowing of the flotation option. They are only too aware of the problems which many small companies have encountered after obtaining a listing.

Companies have frequently been unable to make rights issues and have found the pressures of listed status too burdensome. They have to spend a lot of their time keeping shareholders informed while the stock market is unforgiving of any temporary set back in performance.

But while a flotation is the most high profile means of obtaining an "exit", a sale to a corporate buyer has proved to be the most common next step in the development of most buy-outs.

Ten per cent of buy-outs completed between 1981 and 1991 were subsequently sold on to a trade buyer while just 4.4 per cent were floated, according to Nottingham University's Centre for Management Buy-Out Research.

A trade sale is often the only option open to the company which is too small to go for a flotation.

This usually allows the financial backer to realise all of his investment while managers, if they wish, can normally withdraw after a hand-over period.

A corporate buyer may also be prepared to pay a higher price than could be realised by flotation if it sees synergies resulting from combining the two businesses.

Swedish Match, which was sold to Procordia, a Swedish food pharmaceuticals group, earlier this year, considered a flotation, says Mr Smith of Citicorp, which had backed the earlier Swedish Match buy-out.

But the company's activities had a wide geographical spread, making it difficult to value its overseas assets and to decide on which market to float.

A sale meant investors could get their money back, gave the management the opportunity for added responsibility within the larger group and allowed Swedish Match to benefit from Procordia's distribution network.

Del Monte Foods International got as far as announcing plans for a flotation in February 1992 amid suggestions it might attract a valuation of £450m. In October, however, it opted for a sale to a joint venture between two South African companies, Royal Foods and Anglo American Corporation, for £360m, citing stock market uncertainty.

Sometimes a company is too small to consider a public flotation. A market capitalisation of at least £60m is needed to consider a float while £100m often makes a more realistic minimum, says Mr David Hutchings, deputy managing director of Montagu Private Equity.

For all the thought that is given to "exits" only a small proportion of buy-outs over the past decade have reached this stage of development. Only just over 23 per cent of buy-outs completed between 1981 and 1991 have achieved any form of exit whether flotation, sale, receivership or refinancing, according to the Centre for Management Buy-Out Research.

This may be partly explained by the fact that it was not until the late 1980s that buy-outs began to be done in large numbers – 315 in 1986 rising to a peak of 485 in 1990.

But the result is that the financial backers of buy-outs will have to devote much of their energy to exits over the next few years if they are to achieve their expected returns.

One option which has yet to be explored in any detail is the refinancing deal which allowing the buy-out management to retain its independence. A refinancing which leaves the existing management in charge would depend on the business producing sufficient profits to fund the deal.

Buy-outs have in the past been criticised for encouraging short-term thinking on the part of managements and financiers. A refinancing formula which ensured continuity of management and ownership might go some way to counter this as well as meeting the wishes of managers.

Charles Batchelor

Listed and unlisted MBOs over £10m

	Number			Value (£m)		
	Total	Listed	%	Total	Listed	%
1981-84	25	1	4	880	310	36
1985	23	2	9	870	70	8
1986	27	2	7	940	30	3
1987	33	4	12	2,750	480	17
1988	55	6	11	4,510	940	21
1989	71	12	17	5,860	3,780	65
1990	58	4	7	2,010	170	8
1991	44	1	2	1,880	20	1
1992 (to date)	43	1	2	1,450	10	1
	379	33	[illegible]	21,130	5,810	[illegible]

Source: KPMG Corporate Finance

Problems associated with pure buy-ins have deterred backers

Hybrid deal seen as a less risky option

MANAGEMENT buy-ins, which involve an outside management team moving in to take control of a company, have proved more difficult than many people first thought.

Their place is increasingly being taken by "bimbos" – buy-ins/management buy-outs – which involve a combination of outsiders and the existing management.

With a risk profile closer to that of a start-up than a buy-out, buy-ins in their purest form are now only attempted when the financiers are convinced the deal will work.

"We are not keen on pure buy-ins because the risk is high," says Mr Hugh Mumford, managing director of Electra Kingsway.

Special factors, as well as a belief in the new managers, often play a role. Mr Mumford says his decision to back a buy-in at Gower Furniture was influenced by the fact that he knew the business well, having had an investment in the company for the previous seven years.

This shift towards hybrid deals undoubtedly contributed to an increase in the share held by buy-ins in the total buy-out market in the first six months of this year. Buy-ins accounted for nearly 24 per cent of the number of buy-out/buy-in deals compared with just 18.5 per cent in the first half of 1991, according to Nottingham University's Centre for Management Buy-Our Research.

Most of the buy-ins carried out in the first half of 1992 were of family-owned businesses with the second most common vendors being public companies divesting themselves of divisions or subsidiaries. Buy-ins of large listed groups, a feature of the late 1980s, have fallen out of favour.

In September, Continuous Stationery, which includes the Prontaprint copying chain, was taken private in a £6.8m deal by its existing management. Although the deal was predominantly a buy-out, the incumbent managers brought in an outsider with experience of general management and finance as part-time executive chairman.

3i, the largest buy-in (and buy-out) backer in terms of deal numbers, took a hard look at its buy-in portfolio two years ago to analyse the features which made for success. "We had the choice of saying that buy-ins were too difficult and pulling out or of marketing them more aggressively and giving the managers more back-up," says Mr Patrick Dunne, who heads 3i's buy-in programme.

3i decided to stay in the buy-in business but has had to commit considerable resources to making sure that the deals work. It subjects would-be buy-in managers to a tough selection process and devotes training sessions to getting to know them.

The result has been an increase in the number of buy-ins/bimbos carried out by 3i from 31, in the year ended March, 1991 to 55, in the year ended March 1992. But whereas in the late 1980s only 10 per cent of deals were accounted for by bimbos, by 1992 this had risen to 50 per cent.

The attraction of the buy-in is that it broadens the range of managers available to carry out a deal, particularly if the existing management lacks the ability or the range of skills required to run an independent business.

The problem has been in matching outside managers with a business with which they are not familiar.

"Skeletons in the cupboard" emerged as one of the most frequent problems encountered by incoming managers according to Nottingham University.

When 3i reviewed its buy-in programme it identified a number of factors which made for success in a buy-in/bimbo. They were:

● The more senior the incoming management team, the greater the chance of success. Managing director experience was preferable.

● Given a choice of backing someone with experience of the sector or someone with managing director experience, the latter was a safer bet.

● Backing someone with experience of having previously turned round another business.

● Combining incoming managers with some of the existing management – staging a bimbo – and ensuring both acquired equity in the business. Giving incoming managers experience of working in the business beforehand.

Buy-ins are also best avoided when the business concerned is itself a candidate for "turnaround" treatment, says Mr Ian Forrest, managing director of Montagu Private Equity (formerly Midland Montagu Ventures). Combining a buy-in with a corporate rescue increases the risk of failure, he says.

Buy-ins may be difficult to stage but this is unlikely to act as a deterrent to managers seeking independence. If anything, the supply of senior executives keen to run their own business seems set to increase.

Managers in their mid-40s are aware that their next promotion may be their last. Recession and the removal by large corporations of middle tiers of management have brought forward the retirement age for many executives. Managers aware of how vulnerable their jobs are, often see the attraction of running their own business, Mr Dunne says.

At present most buy-ins are initiated by the managers themselves. They put together a team comprising people they know from their own industry and identify the target company or division they would like to acquire.

But buy-ins, as opposed to buy-outs, create greater opportunities for the financier to play a role in shaping the deal.

"We have had more involvement lately in crafting teams and in plugging gaps," says Mr Gordon Bonnyman, managing director of Charterhouse Development Capital.

This trend has been strengthened by an increasing desire on the part of vendors to approach financial groups directly to see if they are willing to make a bid.

The advantage of this approach for the vendor is that it shortens the sometimes drawn-out process of establishing whether funding will be available.

This does not mean, however, that the financiers are taking over complete responsibility for the deal as is the case in the US.

"I don't see the US model developing here," says Mr Bonnyman. "We would not buy a company over the head of the management."

Charles Batchelor

Management Buy-ins over £10m

Company	(£m)
Under 25m	
1985	
Cullens	(10)
1986	
Acal	(10)
1987	
Life Sciences Int	(11)
New Scotland Ins	(15)
1988	
Burn Stewart	(13)
Autoclenz	(13)
Claimont	(14)
European Brands	(21)
1989	
Range Valley	(11)
Abacus	(11)
Maison Caurette	(11)
Haigh Castle	(12)
Sevam	(13)
Country Casuals	(14)
Valor Stoves	(14)
British Air Ferries	(15)
Hill Leigh	(15)
Exide Batteries	(16)
Britannia Data Mgt	(18)
ServiceTec	(20)
Themes Int	(22)
Rubatex	(22)
Hamleys	(24)
1990	
Wilcox	(10)
Fairmead	(10)
Anglian Fast Foods	(10)
Juliana Sound	(11)
E. Lancs Paper Mill	(11)
Cannons Sports Club	(14)
Hermes	(14)
Lydiashourne	(15)
Canonbury	(15)
Betta Stores	(16)
Wimpy	(20)
1991	
Ambion Homes	(10)
Blanco	(11)
Boythorpe	(11)
Drawlane	(12)
Wallace Int	(12)
Sitex Security Prods	(15)
Eagle Taverns	(17)
BrightReasons	(18)
1992	
Audio & Vision Furniture	(10)
CCA Stationery	(14)
Chamberlain Phipps	(14)
Harrison Industries	(14)
Discovery Inns	(23e)
SSA Advertising	(28)
25 - 50m	
1986	
Gillow	(45)
1987	
Raleigh	(42)
1988	
Lilley	(27)
Needwood	(38)
1989	
Beacon	(29)
Court Cavendish	(35)
1990	
Ravenhead	(27)
United News Shops II	(33)
Walter Alexander	(42)
David Brown	(46)
1991	
Lyric Hotels	(26)
Century Inns	(34)
1992	
Centric Pubs	(29)
Marr Holdings	(30e)
Sycamore Taverns	(35e)
50 - 100m	
1987	
Utd Precision Ind	(76)
1988	
Financial Ins	(65)
Lewis's	(74)
1989	
Crockfords	(63)
Square Grip	(69)
James Neill	(79)
1991	
Enterprise Inns	(56)
Ushers of Trowbridge	(75)
Pavilion Services	(95)
1992	
Unicorn Abrasives	(56)
Teeside Holdings	(63)
Over 100m	
1982/84	
Kingfisher	(310)
1988	
Cope Allman	(265)
Lowndes Queensway	(450)
1989	
Gateway	(2,375)
1990	
Jarvis Hotels	(215)

Source: KPMG Corporate Finance

ESOPS

Building up the team spirit

EMPLOYEE share ownership plans (Esops) may be on the periphery of many people's minds during a buy-out but those who have opted for them believe they offer great benefits – especially during highly competitive times when it is important for the workforce to pull together.

"For employee human relations, it's exceptional," says Mrs Jacqui Martin, financial director of People's Provincial Buses. "The union representatives wear two hats when they're negotiating because they're shareholders as well. They don't demand anything silly or go on strike because they'd be striking against themselves."

Based in Fareham, Hampshire, People's Provincial Buses established its Esop in 1987, when the management and most employees conducted a buy-out from the National Bus Company for £730,000. Each contributor put in £750 to support the bid.

At the time of the buy-out, 20 per cent of the shares were in the workforce's hands and the remainder in the Esop. Now, after distributions of free shares and offers to buy shares, the workforce holds 60 per cent of the shares with the rest in the Esop.

Esops were established as a means by which employees could acquire a large shareholding in their company – whether public or private – without necessarily laying out personal capital.

A company sets up an employee benefit trust (EBT) to acquire some of its shares. The trust buys shares from an existing shareholder using proceeds from a loan guaranteed by the company and serviced by the company's cash flow. Repayments are tax efficient since payments from the company to the EBT are treated as payments to employees, while the trust uses the funds to repay the principal of the loan as well as meet interest charges.

Shares are then distributed to employees, usually through an Inland Revenue-approved profit sharing trust (PST). Although shares can be sold to employees, most are gifted by the company. As long as the shares are held for five years, employees pay no income tax on the sale of gifted shares.

The EBT can repurchase shares from employees, creating an internal market for the benefit of the workforce.

During an MBO, an Esop is the simplest way of including employees in the buy-out, purchasing shares on their behalf and distributing them once the buy-out has been completed.

Not only is the Esop a means of raising a proportion of cash for the MBO. It is also a means of gaining the participation and commitment of the workforce.

In a competitive bid, the support of employees for the current management, may be a critical factor for the management and for the fund providers.

Perhaps not surprisingly, given the recession and market for buy-outs, the number of MBO-related Esops is down this year.

"The greatest momentum was in the late 1980s," says Mr Robin Slagburn, senior corporate finance manager at Unity Trust Bank, which has funded several Esops.

Continued on Page 8

Management in the majority

December 3rd 1992

Buy-out patterns have changed since the heady days of the late '80s, but managers are still taking control successfully

3i LEADS IN BIG DEALS

The multi-million pound management buy-outs of the late 1980s may be few and far between now but there are still plenty of larger transactions taking place.

According to KPMG Peat Marwick's latest figures for £10 million-plus buy-outs, some 380 such MBOs have now taken place in the UK of which 3i has led 50. This is nearly double the number led by its nearest competitor and confirms 3i's position as the clear leader at both the large and the small end of the buy-out market.

The KPMG statistics (in which management buy-ins are also included) show that in the first nine months of 1992 3i has led 10 large MBOs and MBIs with a total value of £280 million.

Given today's economic climate, it is not surprising that many of the 10 buy-outs and buy-ins led by 3i were disposals by large groups strengthening their balance sheets. They included the buy-outs of Civil & Marine Slag Cement Ltd from Evered Bardon, of Standard Fireworks from Scottish Heritable Trust and of Zotefoams from BP.

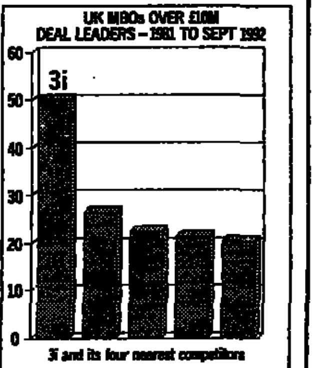
Larger 3i MBOs included a significant "public to private" MBO of Continuous Stationery, a formerly publicly quoted company which decided it could fund its growth more satisfactorily as an independent company, trading as Prontaprint Group.

Other examples include the management and employee buy-out at Coolkeeragh Power and the £15 million MBO at Tulchan Textiles.

To strengthen its ability to operate at the large end, 3i announced a joint underwriting agreement earlier this year with Prudential Venture Managers. Already, five MBOs have been arranged under this scheme.

The importance of the 3i-PruVen link-up was explained by

UK MBOs OVER £10M DEAL LEADERS – 1981 TO SEPT 1992



3i and its four nearest competitors

Rupert Wiles, executive director of 3i, in terms of a clear need in the market for a "bought equity" facility. "This gives a potential buy-out team financial credibility once they have convinced us of their abilities," he said, "and enables them to negotiate with the vendors secure in the knowledge that equity funding is available to complete the transaction. Together, 3i and PruVen can provide 'bought equity' up to a significant amount."

"This type of arrangement helps management teams reach agreement speedily and easily with the vendors. It also means the new company acquires long-term institutional investors with compatible objectives."

'Real' MBOs are still happening

Management buy-outs are as alive and well in the 1990s as they were in the boom years of the 1980s. New statistics by the Centre for Management Buy-out Research (CMBOR) show that, by number, MBOs accounted for almost 45% of corporate transfer activity in the first half of 1992 compared with 35% in 1990. The same statistics show 3i as clear leader in the market, with a 21% share of all MBOs - and almost 50% of the market in MBOs where there is institutional backing for the managers.

But 3i believes it is important to distinguish between "traditional" MBOs, where management hold the majority of shares (backed by a single investor) and those very large scale buy-outs (which became more common in the 1980s) where a syndicate of financial institutions take control of a company. The statistics indicate that the former type - which may be called the "real" MBO - continues to play a major role in UK corporate life.

Realistic prices: more businesses sold at a discount to net assets

According to new research by 3i, published under the title Management in the Majority,* there were 120 £10 million-plus MBOs between 1989 and 1991 but the numbers declined by almost 40% over that three-year period. In contrast, 514 traditional buy-outs took place in the same period, and although this represented a decline too, it was a decline of only 10%.

This 3i research is backed up by the CMBOR statistics. These show that buy-outs in the £1-5 million range, which tend to have a high management equity ratio, accounted for over 50% of MBOs in the first half of 1992.

The 3i research which focused on 188 buy-outs in which 3i invested between 1989 and 1991 and where management took a majority stake, provided important pointers to movements in MBO prices.

The average transaction price in 1989 was £1.8 million, falling to £1.4 million in 1991 as prices became more realistic and the number of buy-outs sold at a discount to net assets grew. The average P/E multiple paid by the managers was 7.5 on historic post-tax profits.

Meanwhile the proportion of risk capital invested by 3i averaged 35 per cent in 1989 and rose only marginally to 37 per cent in 1990 and 1991, resulting in average gearing of 175% over the period. This is a surprisingly stable figure and is contrary to expectations that the proportion of risk capital increases during a recession.

John Platt, executive director of 3i, said the management-owned type of buy-out had been somewhat overshadowed by a few large, highly publicised transactions. "What many people probably don't realise is that the former type of MBO represented 39% of the total UK buy-out market during that time and that trend looks to be continuing," he added. A good example of a managment-in-the-majority MBO was at Titan Airways, the air charter company.

"The recession is still producing opportunities for MBOs as large companies look to raise cash by disposing of subsidiary organisations. With prices becoming more realistic and with careful financial structuring, an MBO undertaken in today's conditions could turn into an exceptional investment for the managers," John Platt added.

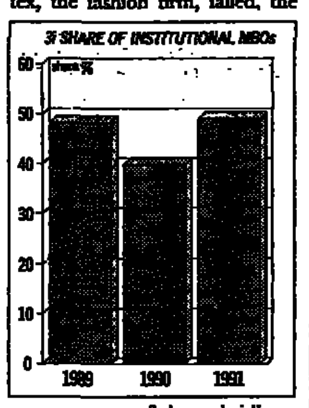
In many instances it is preferable for a subsidiary to be sold to its management team rather than a trade buyer. The existing management are able to preserve continuity for customers, suppliers and employees.

Unfortunately, in some cases parent companies do not take the necessary steps to ensure their survival in time. These tend to be companies which have historically embarked on acquisition strategies and are unable to meet their debt repayment commitments when times get tough.

However, although a parent company may be in difficulty, subsidiaries may be eminently suitable for successful MBOs.

The troubled Brent Walker Group, for instance, recently sold its telephone information subsidiary, Interactive Media Services (IMS), to the management for £12.7 million. And when Berketex, the fashion firm, failed, the

3i SHARE OF INSTITUTIONAL MBOs



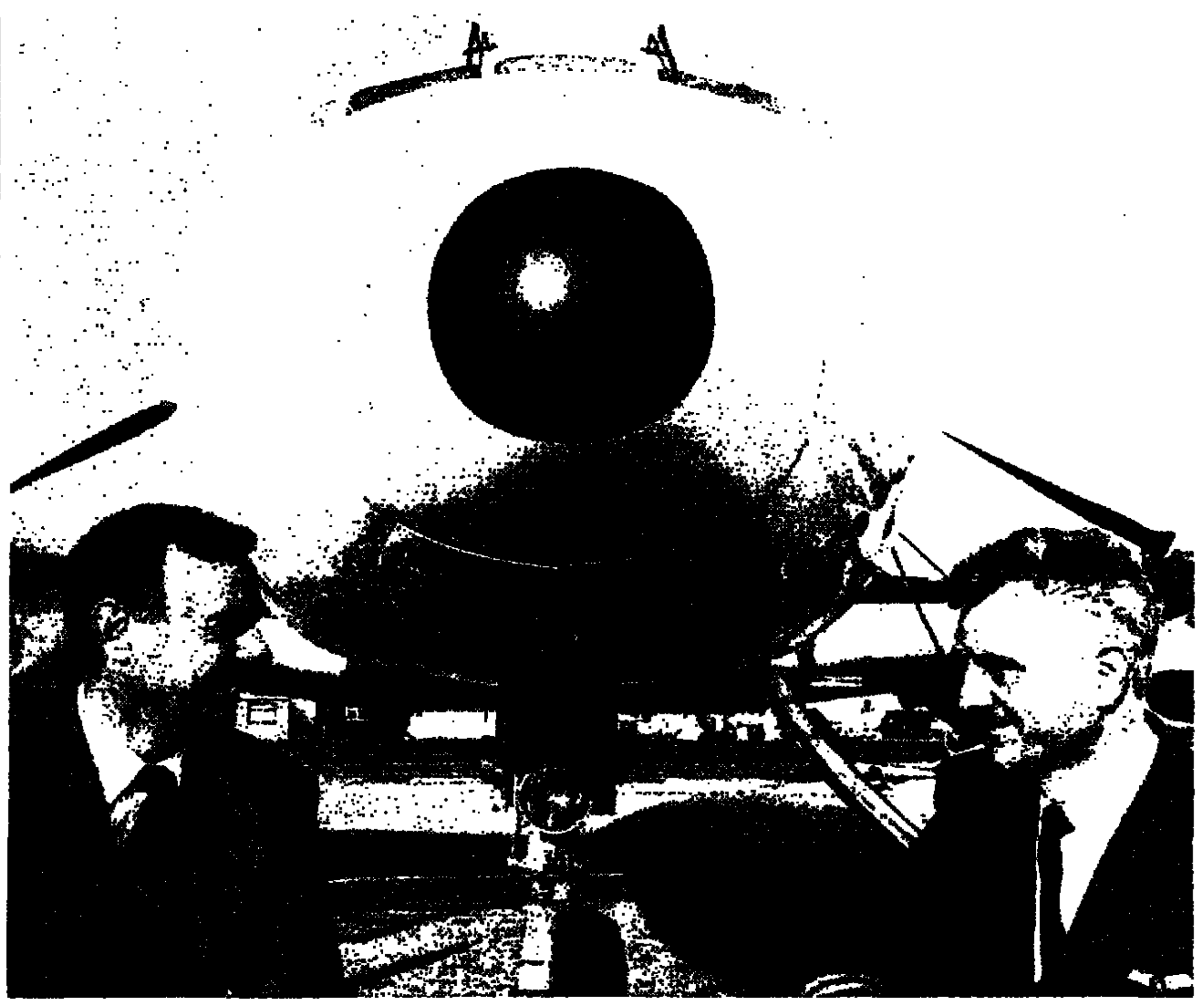
management of its subsidiary, Fifth Avenue, quickly carried out a buy-out.

Research by 3i shows a growing number of buy-outs from receivership being completed over the past three years. These accounted for just 2% of all buy-outs in 1989 but rose to nearly a fifth in 1991.

John Platt of 3i added: "It should be remembered that historically more companies fail coming out of recession than do when we are in a recession. With this in mind, we expect to see an increasing percentage of the buy-outs we complete over the next couple of years arising out of receivership situations."

So MBOs not only remain fashionable, they also make good sense - both for the vendor looking to raise cash and for the MBO team, keen to manage and grow their own business.

** Copies available, free, from Marketing Department, 3i plc, 91 Waterloo Road, London SE1 8XP. Tel: 071-928 3131*



MBO at Titan Airways: MD Gene Willson (in uniform) and sales director Brian Donald

What is a Buy-out manager like?

The papers have been full of articles explaining the intricacies of what it is to be an Essex man, a Fulham man, a Chelsea girl. We know where they come from, where they shop and how they earn a living. Where does the MBO manager come from? How old is he? Or she?

As part of its recent research into management-owned MBOs in which it has invested between 1989 and 1991, 3i looked at the characteristics which make an MBO manager.

The sample showed that the average size of the buy-out team was between three and four directors. Bearing in mind that these directors have reached top management positions within the companies they work for, it is not surprising to find that the average age of the directors was 42.

Contrary to figures from the Policy Studies Institute showing that under 5 per cent of companies in the UK have women directors, 16 per cent of the buy-outs in the sample included one or more women in the team.

Typical investment by team totals £100,000 to £150,000

Over a third of the managers surveyed had agreed from the outset that they would benefit from the additional expertise of a non-executive director. 3i welcomes this as making it more likely the MBO will prosper. Indeed, 3i set up a dedicated Independent Directors Programme in 1986 which has just under 300 members and makes around one hundred appointments a year.

Total turnover of the sample companies was £685 million at the time the companies were bought out, with a typical company earning pre-tax profits of £275,000 on sales of £4 million. To acquire a business of this size the amounts involved varied from

"Mr. Berkolis, the leveraged buy out has gone through and your rum raisin cone is here."

over £8 million to £200,000.

The average management team is three or four and together they invested between £100,000 and £150,000.

Over a third of the managers in the sample were based in the South-East, including London and East Anglia; 22% were in the Midlands; 19% in the North-West, North-East and Yorkshire; 34% were in service industries. However, 40% were in manufacturing companies.

A typical example of an MBO manager is Trevor Piggott.

For 26 years Trevor had been employed by the Watford-based UK Lift Company. During this time he had gradually worked his way up from the shop floor to managing director. When Walker Greenbank plc, the parent company, made it clear that it was keen to sell as part of its rationalisation strategy, Trevor, with colleagues Gary Pither and Clive Holden, put together a proposal.

Trevor explained: "Our main problem was raising the finance. The price was £550,000 plus debt of £150,000. We could contribute £100,000 between us from personal resources. The bank was prepared to provide an overdraft facility of £300,000 but this still left us with a requirement of £300,000.

"Speaking to the venture capital companies was like wading through treacle. We didn't seem to be getting anywhere. Then one day a piece of publicity material arrived on my desk from 3i. I contacted them immediately and it really was like a breath of fresh air. The buy-out was completed with 3i investing £300,000 in the form of equity and long-term loan capital plus an additional £100,000 secured loan as working capital."

As part of the transaction, 3i introduced Trevor Piggott and the buy-out team to Andy Andrews, former chairman of Ofrex plc and Denison plc, who became a non-executive director. Since the buy-out 3i has made a further investment to support the growth of the business as it expands its product range.

Two years on from the buy-out, Trevor says he has no *regrets and would not hesitate to* go through the process again.

The Bimbo factor

Management buy-outs are now a long-established feature of corporate restructuring and management buy-ins are catching up fast. However, hidden among these two change of ownership methods is the BIMBO - the hybrid buy-in buy-out.

The BIMBO can be used to strengthen either MBO or MBI teams. Often, an MBO team is joined by an experienced equity-buying outside manager. Or a buy-in team can include one or more of the existing management in the transaction.

Either way, BIMBOs are good for the business and appear to be on the increase. Last year, 3i backed 27 such transactions and believes that number is probably a conservative estimate.

The term BIMBO arose out of 3i research into factors that make a successful MBI. So why do BIMBOs work?

* They reduce the risks associated with straight buy-ins because, by including existing management, any skeletons are likely to be revealed at an early stage.

* With a BIMBO, the existing managers do not feel threatened by an outside takeover and are therefore keen to maintain the company's performance.

* A complete and unified management team results in a higher level of motivation.

BIMBOs have saved many buy-outs from collapse by adding an outside manager to complement the team, typically in the role of investing chairman. Many of these managers were introduced from 3i's MBI Programme which has been running since 1983.

The best of new blood plus the best of local knowledge

One recent example of a BIMBO is Whitworths Produce Group, the vegetable pre-packing and processing business, which was acquired for £11 million from Booker plc. Philip Emerton identified the company while he was taking part in 3i's MBI Programme and joined forces with three members of the existing management to acquire the group with 3i's backing.

3i believes that BIMBOs make good sense and expects to see a lot more in the 1990s. Whether it is the buy-out or the buy-in team that needs bolstering, the BIMBO brings continuity for the business through existing management, additional expertise from external investors and greater peace of mind for institutional backers.

Big corporations get back to core business: the cue for independence

Where do MBOs come from?

Gone are the boom days of corporate activity when mergers, acquisitions, takeovers and high profile buy-outs ruled the day. But recession can be a time of opportunity as many managers over the past 18 months have found. In the past two years more than 900 management teams have seized the opportunity to become owners of the companies they previously ran.

Many of these have been buy-outs from UK quoted companies. Following the current corporate trend to move away from diversification, a business practice so popular in the early 1980s, many large companies are concentrating on core business where the majority of the skills within the company lie.

As a result of this process, peripheral subsidiary companies and divisions have been put on the market - at realistic prices. This process forms an important source of management buy-outs where the managers are in control.

A good example is Lawtons, the Liverpool-based distributor of packaging systems and consumables, which was bought by its management earlier this year in a £3.3 million MBO from parent, American Brands.

Chris Lansdowne of Lawtons: MBO at a specialist packaging company.

Lawtons' managing director, Chris Lansdowne, said they had been aware for some time that the company's future growth lay in industrial packaging and fastening products and the area of pre-packaging. "The company did not fit into our parent's core activities. However, since the MBO, we have been able to refocus our business and take it forward at a much faster pace than would have otherwise been possible." he said.

"As an independent owner-managed company, we have much shorter lines of decision making and the freedom to manage and make decisions quickly. Our 100 employees are happy, our suppliers have been very supportive and we now expect to grow more quickly than would have been possible before the MBO."

Management buy-outs not only arise from corporate restructuring situations, they can and will continue to assist the succession of ownership of private companies. Returning to 3i's research, around 25% of the buy-outs completed in the three-year period under review were from private companies and many of these were associated with problems of shareholder and management succession.

Earlier this year 3i invested capital to enable the successful change of ownership of Holt-based Structure-Flex from its founder David Frankel to a management buy-out team. After over 20 years of building up Structure-Flex from a start-up company into a £4 million turnover business, Frankel was ready to retire and hand over the reins to a younger team.

Alternative to a sale: owners opt for continuity

Rather than exit through a trade sale which would not necessarily ensure that the company retained the name and identity it had developed and its independence, Frankel preferred to sell to the existing management team which was headed by 39-year-old managing director Ian Doughty.

Following the management buy-out, Frankel was free to retire from the business taking with him a sizeable reward for his efforts throughout the years. As important, he was safe in the knowledge that the company would continue to grow under the control of a management team committed to its success.

91 Waterloo Road, London, SE1 8XP. 3i Group plc and 3i plc are regulated in the conduct of investment business by SIB. Comments and requests for information should be addressed to Chris Woodward at 3i, Tel 071-928 3131

EASTERN EUROPE

Buy-outs back on the agenda

MANAGEMENT and employee buy-outs are back on the eastern European agenda. Fears that "red directors" would profit from new free market economics as privatisation fever gripped the region, have faded and the extent of buy-outs – especially for small to medium sized firms and spin-offs from large state firms – seems greater than earlier indications would suggest.

The widespread ability of managers associated with the former communist regimes to acquire their firms in so-called "nomenklatura buy-outs" produced considerable resistance to the phenomenon. However, it is now recognised that, in many cases, such managers are the only available entrepreneurs for such a deal.

Information on buy-out activity in eastern Europe is difficult to obtain. As well as an unknown number of nomenklatura buy-outs, several thousand hundred buy-outs of retail premises and small workshops have been completed.

In Russia, half of the smaller sales - an estimated 6,500 transactions - have involved buy-outs.

Similarly, in Romania, 270 out of 1,100 smaller activities sold up to October this year were to employees. But apart from those in the former German Democratic Republic (GDR), buy-outs of sizeable enterprises have so far been limited.

By June this year, of the total 8,175 privatisations carried out by the Treuhandanstalt (THA), the German state privatisation agency, 18 per cent were buy-outs and about 1 per cent were buy-ins.

Over 1,100 buy-outs have involved companies with fewer than 100 employees. However, large buy-outs are possible with two of the largest to date being Anhaltiner Stahl und Anlagenbau (Asta) and Industriemontagen Leipzig.

The Privatisation Law in Poland allows for a procedure

Finance can be a problem in the completion of buy-outs in the region

of "liquidation" whereby a buy-out occurs when incumbent management and employees create a private enterprise to lease state assets. The original state-owned enterprise is subsequently wound-up.

By October 1992 more than 450 out of a total of about 800 sales were buy-outs. In Hungary, around 20 buy-outs are estimated to have been completed under the recently introduced self-privatisation legislation, with its emphasis on foreign trading companies and services.

In Romania four companies have been selected to be sold through management buy-outs as part of a pilot privatisation project, three of which have so far been completed.

In Estonia, two of the first seven pilot privatisations (Sami and Mareta) were full buy-outs and four others (Baltika, Valga, Volt and Talleks) were buy-outs in which management and employees were obliged to leave minority stakes with the state or to sell them to the general public.

Slovenia, which under its initial Draft Privatisation Law gave pre-eminence to buy-outs, has seen them completed via several routes. Seven have been completed in the past 18 months through arrangements whereby workers councils transfer ownership to the privatisation trust which then sells the shares back to the employees.

A further 17 have involved privatisation through the internal acquisition of shares using the old Yugoslavian legislation.

Most, however, have occurred through the "drop-down" method in which a newly created company owned by management and employees buys or leases the assets required from the old company.

Finance can be a problem in the completion of buy-outs in eastern Europe in the absence of established venture capital firms and where management lacks the necessary personal resources meet down payments.

The so-called "E-credit" guaranteed by the National Bank makes it possible in Hungary to obtain loans for buy-outs on favourable terms. In order to obtain the credit management must pay at least 10 per cent of the purchase price with their own resources.

Elsewhere, down payments range from 15 per cent in Slovenia to 30 per cent in Romania. In the former GDR, to help solve the problem of limited personal finance, a programme of *Eigenkapitalhilfe* (equity support) of loans up to DM1m were introduced for

Pilot privatisation buy-outs in Romania have made use of clawback arrangements

managers wishing to acquire at least 20 per cent of a firm's equity – as long as this amounted to less than 40 per cent of the total invested.

The valuing of enterprises presents problems, it is difficult to satisfy political demands that assets are sold at a fair price without bringing the privatisation process to a grinding halt as the limited staff of privatisation agencies struggle to investigate fully each deal.

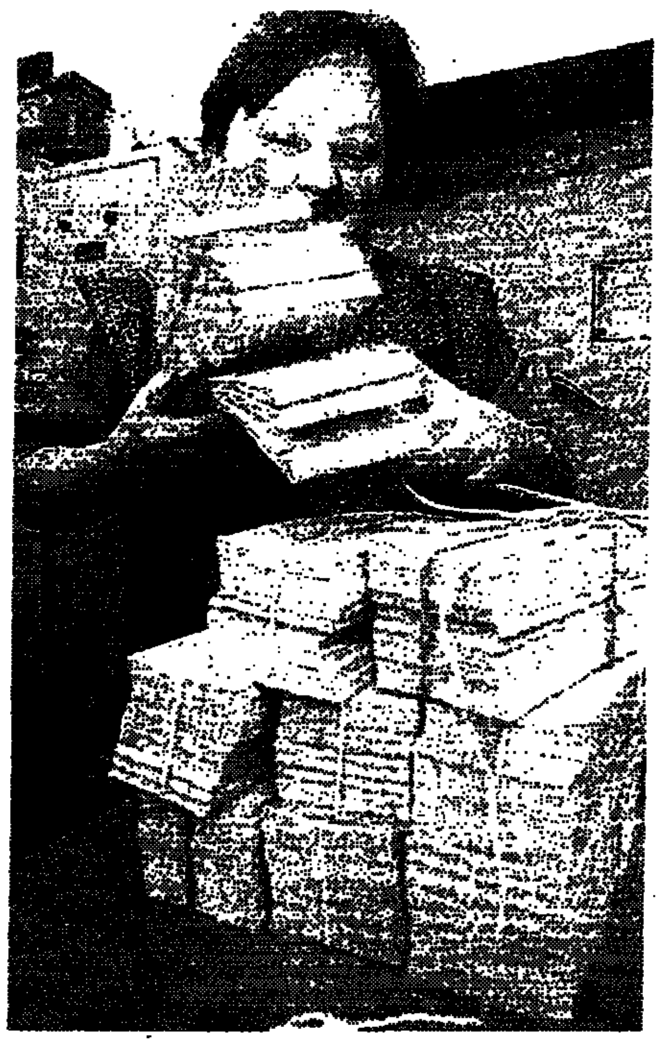
The result has been the development of decentralised or self-privatisation. In September 1991 self-privatisation was introduced in Hungary principally for smaller firms. Buy-out teams have to provide an independent valuation of the company using a government-approved consultant. The consultants have to give priority to management and existing employees.

Maintaining their reputation and position on the government's list gives consultants an incentive to make a fair valuation. This can be difficult in an uncertain environment where incumbent managers may try to influence the apparent value of a business.

A number of countries now insist on an auction but outsiders may be unwilling to bid against incumbents. Attempts to deal with the problem of undervaluation in the privatisation of former GDR assets include purchase price adjustment and clawback clauses if the enterprise is sold within a relatively short period or without accompanying property.

In addition, penalties can be incurred if investment and employment guarantees made by the purchaser are not met. The pilot privatisation buy-outs in Romania have also made use of clawback arrangements whereby purchasers are not allowed to sell land and buildings within a 10- to 20-year period. If they do, all proceeds above the inflation-adjusted figures in the initial buy-out contract are clawed back by the state.

Uncertain conditions in many markets pose questions about the viability of MBOs. For this reason, buy-outs are



The future of buy-outs in eastern Europe is linked to voucher schemes

frequently only considered as options for viable firms. Western industrial partners who can provide capital and marketing expertise may be unwilling to buy unless they can obtain majority control – something management may be unwilling to concede.

Identifying suitable buy-in managers where a buy-out is not feasible also presents problems, as the THA found when it launched such a program in January. Of the more than 1,000 enquiries received from interested western managers, less than 50 are expected to acquire a suitable target.

However, a small number of buy-ins by western managers have taken place, the largest being the estimated DM409m buy-in of Elpro and TGE by a partnership of three ex-Mc Kinsey consultants and three industrialists.

The future of buy-outs in eastern Europe is also linked to the development of voucher schemes. The political benefits of voucher-based mass privatisation schemes for some segments of the population has frequently caused problems for the advocates of buy-outs.

Both schemes can co-exist for different sized companies and recent developments indicate that it may be possible to include both elements in the privatisation of a particular firm. A minority of shares in a company can be acquired through vouchers, including the possibility for employees to exchange vouchers for shares in their company, with the majority of the shares being sold at auction to incumbent management and employees.

Taken with signs that delays in passing privatisation legislation are coming to an end, the indications are that buy-outs are set for considerable growth throughout eastern Europe. However, great care still needs to be taken in balancing incentives for management and employees to take the risk, with continuing public concern about the nature of such deals.

Mike Wright, Igor Filatochev and Trevor Buck

Centre for Management Buy-out Research University of Nottingham

GERMANY

Showing potential

IT SPEAKS volumes for the nature of the German buy-out market that when LBO France opened up a German operation earlier this year, it decided it had to change its name.

"The problem is that the term LBO means something evil in the German market," says Mr Eberhard Crain, managing director of Vector Beteiligungsberatung, as LBO France's new German operation is called. "Anything to do with leverage provokes images of unfriendly asset stripping."

German businessmen are averse to financial innovation. The very idea of selling a business, let alone selling a business to a financial buyer, is often an anathema. Perceptions are not helped by the fact that the first large buy-out in Germany – that of Lignotock in 1989 – went wrong after the vendor fled Germany amid allegations of fraud.

In spite of these obstacles the potential market for buy-out finance in Germany is huge – if only because at present it is relatively underdeveloped.

Mr Max Römer, chief executive of CWB Capital Partners in Frankfurt calculates that there are 70 or 80 institutions pursuing venture capital business in Germany, and that over the past decade the market has grown sixfold to DM4bn. This compares to a market size of DM6.5bn in France, DM17bn in the UK and DM65bn in the US.

Of the total invested in Germany, he says that MBO finance accounts for a relatively modest DM620m-DM630m. While the bulk of the DM4bn financing is start-up or expansion capital, he says about a dozen firms are concentrating on the buy-out segment of the market, where risks and returns are high – and the prospects for growth better than in mainstream venture capital.

The first oft-cited cause for optimism is the so-called "succession problem" in the "Mittelstand", or mid-sized companies. These family-owned companies, which play a central role in the western German economy, were often built up after the war and have now reached the point where the first two post-war generations of family-managers have retired or are approaching retirement.

Earlier this year a study produced by the German arm of 3i, the UK venture capitalist house, argued that third generation inheritors often lose interest in managing the business. Mr Römer thinks 700,000 companies out of the total of 2.3m companies in Germany will have problems with succession during the course of the next decade.

Mr Friedrich Graf von der Groeben, chief executive of Schroders & Partner, the German arm of Schroder Ventures, says that in addition to the succession problem there are pressing industrial reasons why owners of medium-sized companies will make increasing use of buy-out finance.

He argues that many Mittelstand are simply too small to preserve their independence and that they need to merge to achieve economies of scale in increasingly competitive world markets. Buy-out specialists can act as a catalyst to this needed rationalisation.

Another cause for optimism is that most of Germany's biggest companies are conglomerates which owe their shape to chance rather than coherent strategy, and in the long term it is likely that they will start thinning out their portfolios.

This is another potential buy-out market, as companies may prefer to sell to management and employees rather than to an unknown third party. (However, at present, it is often seen as a mark of corporate weakness to sell a subsidiary, however marginal the business in relation to the group's core activities.)

The slow-down in the German economy may act as a catalyst to such sales. But, says Mr von der Groeben, its main effect so far has been to slow down the already slow process of putting together transactions, introducing additional pricing and financing complications.

"You can't make a quick buck in this market," he says. "You need patience, continuity and solid financing."

David Waller

Team spirit

Continued from Page 6

"They aren't the kind of thing companies think of doing when they're just trying to survive."

In spite of this, money is still available, even if it is only in the hands of employees. At least two of this year's Esop-related buy-outs have been over-subscribed by their workers.

When the Port of Tilbury completed its buy-out from the Port of London Authority in March for £33.5m, employees could buy 17 per cent of the shares. The offer was over-subscribed by 21 per cent as 55 per cent of the workforce came forward to buy.

"The average purchase was for £2,400 of shares," says chief executive, Mr John McNab. "It's a heck of a lot of money and people are already asking if they can buy more."

Why companies should attract so much financial support from their employees in such straitened times is open to debate. However, it may be a sign that those who are employed are keen to back and be part of their company.

Numerous attempts have been made to broaden the appeal of Esops. The statutory Esop, introduced under the 1989 Finance Act, can operate like the popular case law Esop but receives additional tax advantages.

For example, shareholders selling at least 10 per cent of their shares to an Esop may be able to claim capital gains tax rollover relief.

In 1991, the Esop Centre launched a model Esop in an attempt to make it easier and less expensive for companies to establish a statutory Esop. The model steers companies and their advisers through recent legislative changes and includes a model trust deed.

Unfortunately, the qualifying requirements for a statutory Esop have proved so onerous that even the model Esop has failed to woo companies.

The Esop Centre is now lobbying government to make radical changes to the statutory Esop, to make it more attractive. Its 10-point plan includes proposals to:

- Make the trustee a subsidiary company (so that no individual – such as an employee – has personal liability as a trustee);
- Allow part-time and new employees to benefit; and
- Make statutory Esop trusts tax neutral.

Malcolm Hurlston, director of the Esop Centre, established to encourage Esops, is hopeful that these points may be accepted in the next Budget. "It will be the main way of making Esops popular."

In the meantime, some of the trade unions are beginning see the attractions of Esops. The MBOs of Coolkeeragh Power and People's Provincial Buses had the backing of their respective unions.

However, some trade unions remain sceptical. "Many have a problem of coming out in support of Esops at national level, as it smacks of capitalism," says Mr Blagburn. "They're also wary of Esops being seen as pension substitutions, as they have in the US."

Mr David Tankel, director at the management and buy-out consultancy, New Bridge Street Consultants, believes that management attitudes to Esops and wider share ownership are changing. "Managers are beginning to see the benefits of employees having a sense of ownership of the company and being committed to it."

Mr McNab at the Port of Tilbury, has seen his employees attitudes to the company changing. "People feel they're working for themselves, they can have an impact on the company and see a return on their investment by being co-operative," he says.

It is still early days for Esops. They will, of course, only be successful if the company is successful. That, in the long-term, may be the best – or worst – advertisement they can have.

Hester Thomas

MANAGEMENT BUY-OUTS 9

THE US

Activity still sluggish

AN AIR of dreary inactivity hangs over the management buy-out business in the US. Few deals are being done, many leveraged buy-out funds are embarrassingly flush with funds and existing MBOs, undertaken in the heady 1980s, are mainly interested in refinancing their balance sheets, replacing high levels of borrowings with either equity or a less expensive debt securities.

Industry figures paint the picture clearly. According to Securities Data, the financial information services group, the current year has generated 124 management buy-out deals, with a total value of $4.87bn (this is measured in terms of deals announced, not necessarily completed, and the cumulative total runs up until November 16).

This level of activity is roughly on a par with the equally drab levels seen in 1991. Then, in the 12-month period, 170 transactions were announced, with an aggregate value of $4.79bn. This, in turn, repeated the 1990 experience, when managements and dealmakers produced 175 deals, with a combined total value of $5.61bn.

But in all three years – 1990, 1991, and 1992 – activity was way short of the veritable feast of MBOs undertaken in the late-1980s. In 1989, for example, the industry notched up 296 transactions, with a value of $34.4bn while in 1988, the figures ran at 294, with a heady aggregate value of $84.5bn.

The reasons for this drop-off in activity have been well-explored. For a start, the crisis in the US commercial banking sector – fuelled by its exposure to ailing property assets – has meant that banking support for anything but the most conservatively-structured deal has been hard to obtain.

Second, the recession has made the profitability of many businesses unpredictable, and hence the stable cash-flow projections, essential to a successful MBO, cannot be guaranteed.

In fact, the only significant management buy-out deal undertaken this year has been the purchase of American Re-Insurance Company, a subsidiary of the large Aetna Life & Casualty insurance group, by a group led by Kolhberg, Kravis Roberts, the Wall Street LBO specialists.

The deal put a price-tag of around $1.4bn on the reinsurance business, and represented the first billion-dollar-plus deal engineered by KKR since its record-breaking $25bn purchase of RJR Nabisco in 1989.

It was all the more surprising that this single billion-dollar MBO should occur in the insurance sector, which was generally kept out of the debt-financed takeover binge of the 1980s – not least by wary state insurance regulators.

The AmRe deal, however, was complex and a less than "clean" disposal on Aetna's part. Although the seller received around $1.5bn in cash and took a $78m gain on the sale into its third quarter results, the Hartford-based insurer also provided a reinsurance contract to AmRe. This provided that Aetna would meet 80 per cent of any AmRe incurred losses for 1991 or earlier that are still outstanding at January 1, 1992, and in excess of $2.7bn. The maximum potential payment was capped at $500m.

After the AmRe transaction, the value of individual deals announced this year falls away sharply. The next largest is the pending offer by a management group and First Chicago Venture Capital, part of First Chicago bank, for a variety of timber-related assets put up for sale by Procter & Gamble. According to Securities Data, the estimated bid price is $700m. P&G announced that it intended to divest its entire wood pulp division back in March, and has already agreed to sell part of the division to Weyerhaeuser, the large West Coast timber company.

After that, there is the $525m purchase of MS/Essex Holdings, a New York-based manufacturer of electric cable, wire and wire insulating materials, by Bessemer Capital Partners, acting in conjunction with the management and Donaldson, Lufkin & Jenrette, the New York brokerage house. In this case the seller was also an LBO investor – namely, the Morgan Stanley Leveraged Equity Fund II.

It is difficult to envisage any dramatic improvement in the climate for MBOs in the US in the immediate future. Although there are some signs of an improvement in the economic climate, they are tentative and the confidence which suffused the 1980s is still sadly lacking. The banking industry, if slowing recuperating, is scarcely healthy – and the real estate market remains tough. In short, the MBO market could be caught in the doldrums for a while yet.

Nikki Tait

FRANCE

Damage not permanent

WHILE buy-outs may be suffering from the general economic downturn, damage should only be temporary since a sizeable pool of candidates for such deals still exists.

The lack of takers when founders of medium-sized family firms retire continues to lead to a number of closures each year – a problem aggravated by today's shaky corporate climate. "There is a large reservoir of enterprises to be financed by leveraged buy-outs," said Mr Dominique Peninon, director of Alpha Associates and vice-president of the French Venture Capital Association, AFIC.

Even more small companies close because of handover problems, but most of these are not in line for leveraged deals, in some cases, simply because they do not want to sell out to anyone at any price.

However, the MBO is not the panacea for the problem of succession that some thought it would be, according to Gilles Cahen-Salvador, president of LBO France, the largest adviser and practitioner in France. "Targets must be profitable with clear prospects since they must reply a large debt. Very few fit this bill," he said.

The recent progress of the sector is difficult to asses. Changes in statistical definitions deprive most year-to-year comparisons of meaning, according to AFIC. The only figure that stands up is that for the average size of buy-outs and buy-ins, which rose from FFr3.3m ($.61m) in 1990 to FFr5.5m in 1991.

Most operators are biding their time until the economy turns around, banks become braver and the prices of companies fall to more realistic levels. Asking prices are lower than they were two years ago, but the drop is "not very significant yet", says Mr Daniel Toutlemonde, a partner in Suez Finance Conseil. He expects further declines in 1993.

Banks have been more cautious about lending for highly-leveraged deals, even though the gearing – or debt-to-equity ratio – has come down sharply over the past three years.

Although this reflects leaner times, the reverse was welcomed at a time when fears were mounting that France would follow the US with its over-leveraged transactions and sometimes spectacular corporate collapses.

Buy-ins are increasing in importance. Nearly all deals used to be buy-outs, says Mr Cahen-Salvador, because there was no supply of proficient outside managers to be tapped. Now, however, more quality managers are available and, says Mr Maurice Tchenio, director of Apax Partners & Cie, since the companies involved are less profitable, they need an fresh injection of expertise as well as cash.

For Mr Cahen-Salvador's LBO France, buy-ins are now running equal to buy-outs numerically, while for Mr Toutlemonde at Suez, buy-ins are now in the majority.

While most agree on the direction of MBO activity, obstacles caused by tax issues are hotly debated. Fiscal integration is allowed only if the transaction covers 95 per cent of the new company's capital, which upsets some operators but not others.

Mr Cahen-Salvador is an outspoken critic of the rule, claiming that one recalcitrant member of an owning family with a stake of only 5.01 per cent can prevent an attractive deal taking place. He claims that even a 5 percentage point cut in the threshold would help under current tax laws.

Mr Tchenio, however, believes the 95 per cent rule is not much of a brake. Problems can arise, he says, with listed companies and dispersed shareholdings, but these have little impact on the underlying need for MBOs or other LBOs.

There are ways around the difficulty, says Mr Jean-Francois Court, chairman of AFIC's fiscal and legislation committee. One way is for a holding company to charge the operating subsidiary management fees, which reduces the tax bill and neutralises the lack of integration.

Scrapping the rule is "not a priority", even though it would be simplify procedures, he says. More important is to obtain greater flexibility over exoneration of capital gains tax on venture capital funds' investments in companies with at least 50 per cent of their shares listed in EC countries.

The problem is that this applies only if the target holding company holds at least 40 per cent of the voting rights in its operating subsidiary, which is rarely the case with multi-tier corporate structures, Mr Court explains. He has been lobbying the Finance Ministry for a change, and hopes for a reply before the end of the year.

Barbara Casassus

ITALY

Cost of finance acts as a deterrent

"THIS year's results are not encouraging. The economic situation, high interest rates and fiscal tightening mean that 1992 will definitely be worse than 1991 for buy-outs in Italy," says Mr Franco Papa, corporate finance partner at KPMG Peat Marwick in Milan.

Not that last year provided much reason for enthusiasm. The firm's data base shows that 16 operations in total were announced in 1991 – three fewer than in 1990. Moreover, KPMG Peat Marwick says that the market value of deals plunged by 53 per cent.

This year the value will probably decline further. According to Mr Dante Razzano, Morgan Grenfell Italia's managing director, there have been no significant buy-outs, above $100m, in Italy in 1992. "A combination of high interest rates and heightened consciousness of lending risks among Italy's banks has reduced buy-out activity," says Mr Razzano.

The cost of finance is the factor most frequently mentioned as a deterrent to buy-outs. "It is almost impossible to consider leveraged operations at current interest rates," says Mr Guido Belli, a senior executive with Sopaf Group's Invest, a leading Italian investment bank.

The MBO deal by which Invest took a 70 per cent stake in the building materials company SADI at the beginning of the year was one of four mentioned by KPMG Peat Marwick. "It is the only operation that we have completed in 1992," says Mr Belli.

The fact that yields offered by buy-outs in Italy are unattractive is not only because of the high cost of money. Prices sought for businesses have often been high, a factor that has also prevented the growth of buy-out numbers. "Many owners have held inflated ideas about the value of their companies. Moreover, they believed that prices could only go up. But, after the shocks of the summer and autumn, a sense of reality is beginning to show," says Mr Razzano.

Mr Jonathan Bliss, director of 3i, also remarks on greater pricing realism. "Results in the corporate sector were disappointing in 1991 and businessmen now recognise that outturns will be poor this year and that recovery is unlikely next year. Prices are starting to reflect this."

3i is not typical of buy-out operators in Italy, where it started business two years ago; it wants only minority stakes and looks for longer term investments. It also wants low gearing in operations in which it participates, with debt to equity ratios of about one. "We want to avoid the higher risk that accompanies high gearing," Mr Bliss says.

Schroder Associati is less concerned about debt/equity, but looks carefully at debt/cash-flow.

"Interest cover is the key measure. The number of times that financing costs are covered by the company's cash-flow is what counts," says Mr Paolo Colonna, the firm's director.

Schroder Associati has been involved in about 40 operations over the past four years, taking majority stakes in small and medium-sized companies with the aim of creating mini-industrial holdings. "Italian industry is characterised by one-man entrepreneurial businesses. There are rarely outside managers in family companies, so our deals are buy-ins rather than buy-outs," says Mr Colonna.

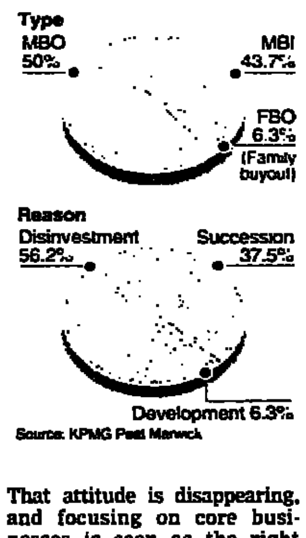
The trade sale offers the main exit route in Italy. "Nobody is enthusiastic about the 'borsa'," says Mr Bliss about the option of stock market quotation. Italy's is a small market lacking the public limited companies and large scale investment by institutional investors that typify those of New York and London.

Yet in spite of the absence of action over the past two years, investment bankers in Milan have not lost hope. Schroder Associati's Mr Colonna believes opportunities will arise next year from two developments in Italian industry.

First, it now seems that privatisation will become a reality. Most observers believe facts will soon follow the torrent of words that the subject has generated. "Management buy-outs will not happen directly, but will occur as a by-product when new owners of privatised companies start rationalising," says Mr Colonna.

"The second source of buy-out operations will be the corporate restructuring that major groups have started to put in motion. Until now the sale of subsidiaries has been seen as a sign of weakness. That attitude is disappearing, and focusing on core businesses is seen as the right strategy," he says.

Buyouts in 1991



Source: KPMG Peat Marwick

Mr Bliss also sees corporate restructuring as a source of buy-outs, although he believes that management will only have small equity stakes. "Succession problems in family companies will continue to provide good opportunities for buy-out operations," he adds.

In which sectors are the opportunities likely to occur? Most bankers agree that food is at the top of the list. "It will always be an interesting sector, even when the economy is in recession," says Mr Bliss.

High quality clothing will continue to produce opportunities. However, in spite of the density of Italian engineering, conditions are tough and prospective deals will be subject to extremely close scrutiny.

Invest is examining several potential operations, and Mr Belli believes that there will be no shortage of good opportunities over the next six months, as owners decide to pass the burden of management to others and as their asking prices start to fall.

If this happens, the patience of some investment banks should be rewarded after the lengthy period of scarcity. There have been many players on the field and at the sidelines of Italian buy-outs. It will be interesting to see which make the winning plays when the game really gets moving.

David Lane

THE REGIONS

Deals flow steadily

FIVE-and-a-half weeks ago, Interactive Media Services (IMS), a Leeds-based telephone information specialist, was bought by its management from the troubled Brent Walker Group in a £12.7m deal.

The Leeds office of 3i arranged the funding, bringing in Murray Johnstone and County NatWest Ventures jointly to buy £7m of equity. Debt facilities came from the Bank of Scotland's Edinburgh office, a specialist in assessing risk for IMS's low asset, high cash-flow type of operation.

IMS is the largest UK user of British Telecom's premium rate network, providing sports information services using 0891 numbers.

Its most recent coup was to secure an exclusive three-year contract with the Test and County Cricket Board so people can dial in for the latest scores, making money for both IMS and the game.

The deal was typical of the sort of buy-out activity under way in Britain's regions. A large group needed to divest a sound but non-core business. Selling to the management made the most sense for continuity and professional expertise was on hand locally.

Crucially for the industrial and commercial infrastructure of the regions, the parent group's own problems did not automatically spell doom for a healthy subsidiary, as has happened in past recessions.

In the IMS case, Mr Bill Wilson, the chief executive, turned to Coopers & Lybrand in Leeds for financial advice and to Booth & Co, one of the Leeds "big five" commercial law firms which have made the regional capital Britain's strongest legal centre outside London.

Two weeks later, it was Manchester's turn, when its network of professionals arranged the management buy-out of Celmac, the UK's leading manufacturer of toilet seats, from Burmah Castrol, which had picked up the non-core business last year when it acquired Foseco.

Nearly all the same national firms of professionals were involved in Celmac as with IMS. However, it was their Manchester offices this time, with Barclays Development Capital investing rather than Murray Johnstone and the Manchester firm of Eversheds Alexander Tatham doing the legal work.

As Mr Charles Richardson, a 3i main board director, puts it: "While some people thought the buy-out was a late 1980s phenomenon, time is proving them wrong. There are some very good ones around now – especially in the regions, and at lower prices."

'While some people thought the buy-out was a late 1980s phenomenon, time is proving them wrong'

Mr Richardson is responsible for the seven 3i offices in northern England and Scotland. A drive on overheads has seen 3i close its small bureaux in Sheffield and Hull this year, to centre operations on Leeds. It is also moving to smaller, more economic offices in Edinburgh, putting its prestigious but over-large building in Charlotte Square on the market.

Mr Richardson says this is to save overheads in cost-conscious times, not because there is a shortage of work. Indeed, 3i's latest published figures show £66.5m invested in 81 management buy-outs in the Midlands, north and Scotland in the year to last April.

The north-west had most money – £18.5m – for 12 deals. The East Midlands used £16m in 17 deals and Scotland £14.5m in 24.

While most deals are relatively small compared with the highly-leveraged ones of the late 1980s, regional work is steady.

The past six months have even seen some larger deals. Standard Fireworks, based in West Yorkshire, was bought from Scottish Heritable Trust in a £27m deal; Swift Transport, in the East Midlands, was a £26m buy-out from LEP; in the north-west, Tulchan Textiles' management needed £15m to separate from a privately-owned leisurewear parent, and Taco Holdings was in a £10m deal with its parent, a polyethylene film manufacturer.

Ten years ago, the local networks of professionals who put these deals together did not exist, so neither did the deals. With local knowledge and contacts essential to good deal-making, the change from the recession of 1980-1982 is profound, enabling more businesses to survive and corporate ownership to spread.

Coopers & Lybrand's experience illustrates how fertile this ground is. In spite of his name, Mr Paul Southern is in charge of northern operations, which he says have grown at a rate of 70 per cent a year for seven years and now involve 37 fee-earners, plus supporting staff, in the north alone.

According to the latest report of the Centre for Management Buy-out Research at Nottingham University, the south-east's pre-eminence in buy-out markets is slipping. It accounted for only 35.9 per cent of buy-outs in the first half of this year, compared with 38.1 per cent in 1991.

The north-west has accounted for 10 per cent of the national total in the past 18 months, while the south-west's share rose from 5 per cent in 1990 and 1991 to 8.2 per cent in the six months to June this year. Meanwhile, the north-east and Cumbria achieved a record share of deals at 5.2 per cent of the national total for the six months.

Scottish and Yorkshire's shares dipped slightly in the six months, but this may reflect a slowdown in the time taken to do them. Mr Southern says the more cautious economic climate means it takes three or four times longer to close a deal now than in the late 1980s. Six or eight months is typical. Discussions with IMS started last year.

Raw numbers may well be a better indicator: the south-west recorded 19 buy-outs in the first half of 1992, after averaging 10 per half-year since the beginning of 1989.

By contrast, the bigger south-east regional economy saw more than 100 deals in the first half of 1991, but only 67 in the second half. The figure picked up to 83 in six months to last July, but the directions of the two regional trends is obvious.

'There is more caution but there is a good enough flow of buy-out proposals for this to be our main activity today'

Mr Richardson of 3i says: "There is more caution all round, but there is a good enough flow of buy-out proposals for this to be our main activity today.

"Prices are well into single-figure multiples of earnings, compared with up to 14 four or five years ago, when earnings were also higher."

Four or five times earnings is the current price level quoted by other professionals, such as KPMG Peat Marwick's Manchester office.

Does this mean, therefore, that the higher-priced buy-outs of previous years have run into trouble in the recession because their managers paid too much? "Most have proved remarkably resilient," Mr Richardson says.

"One or two have failed, a few have been refinanced, but most have been able to continue. It proves the virtues of owner-management: they have an incentive to succeed. Also, good managers see things coming, adjust to problems, take difficult decisions early and plan their way through."

Capital providers say this latter point is a principal reason managers win their backing in the first place. Mr Southern says three other ingredients also have to be present: "Cash, cash and cash." These always improve recession-resistance.

Ian Hamilton Fazey

PROFILE: FIFTH AVENUE

Quick work needed

MR PAUL FABIAN divides the six days which followed the fateful afternoon of Friday September 4, 1992, into various parts: the surreal, the worst and the best.

This was the week he and Mr Brian Worth, through a new company they formed – Idealdirect, which would trade as Fifth Avenue – acquired the business and assets of Fifth Avenue Ltd. for an unspecified amount, from the receivers of the Berkertex Group.

Based just off London's Oxford Street, Fifth Avenue supplies retailers and mail order houses such as Littlewoods, C&A, Etam, British Home Stores and Burtons, mainly with ladies garments.

With a turnover of £13.6m and a profit of £525,000 in 1991-2, Fifth Avenue represented approximately 30 per cent of the activities of its parent, Berkertex Group.

There was little synergy between Berkertex and Fifth Avenue Ltd. The former made dresses, the latter made separates and each operated virtually independently of the other.

It therefore came as no surprise when, in November 1991, Berkertex asked Mr Fabian and Mr Worth if they would like to conduct a management buy-out.

A price was agreed on and Fifth Avenue Ltd's directors put together a deal which involved financial backing from the Bank of Ireland and 3i. At the last minute Berkertex Group decided it had undervalued the business and asked for an extra £500,000 more or, as Mr Fabian puts it, "a golden wave goodbye".

The deal fell through. Disappointed as he was, Mr Fabian says: "It did give us a chance to put our toes in the water, go through all the necessary budgeting, cash-flows and presentations to financial institutions."

Fifth Avenue Ltd went on to have a successful year of trading. By September 1992, it had accrued £2.2m in its account at the Bank of Scotland and owed creditors around £650,000.

In the meantime, it was becoming increasingly apparent to Fifth Avenue Ltd, that Berkertex was experiencing trading difficulties. "We could see they were in trouble," says Mr Fabian, "but the problem was determining when they would become insolvent."

As the situation deteriorated, Mr Fabian got in touch with Blick Rothenberg (the accountants which had assisted with the failed 1991 MBO) and 3i, to warn them that their services might be needed again.

At midday on Friday, September 4 Mr Fabian was contacted by the Bank of Scotland. He was told the directors of Berkertex Group had informed the bank that they were unable to continue to trade. The bank was drawing in its loans and overdraft facilities. Touche Ross had been appointed as receivers.

Mr Fabian was summoned to an immediate meeting with the bank at which Fifth Avenue Ltd, under its joint guarantee responsibility for the overall debt of the group, was asked to deposit £12.5m to cover the debt. "It became surreal," recalls Mr Fabian. "I told them they could have the £2.2m [accrued in its account at the Bank of Scotland] but that I didn't happen to have the other £10.3m on me."

Mr Fabian and his co-director went into action. They contacted Blick Rothenberg and 3i, then made an appointment to see the receiver.

On Saturday, the receiver explained that he had a duty to sell the business to the person who came up with the best offer. Sunday was spent with Blick Rothenberg working on a business plan.

Monday morning, Mr Fabian had a meeting with Barclays Bank, Langham Place to ask for a £500,000 overdraft facility. The afternoon was spent in negotiations with the receiver and contacting solicitors to put the MBO paperwork in place.

On Tuesday, the directors organised funding. On Wednesday morning, Barclays Bank confirmed the overdraft facility and negotiations continued with the receivers. By Thursday afternoon, the MBO purchase from the receiver was complete. Idealdirect had been formed.

Mr Worth and Mr Fabian hold 77.5 per cent of the shares in equal quantities between them, while 3i holds the rest. Funding for the directors' part of the business came from a large, short-term loan from a supplier, personal savings, guarantees and loans. "That was the worst part," says Mr Fabian. "Having to give personal guarantees and realising what that commitment meant."

Mr Fabian and his partner paid substantially less for the business than the 1991 asking price. "It was a forced sale and you've got all the risks inherent in purchasing from the receiver," he explains. "There are no warranties."

Among many issues was that of whether suppliers and customers, affected by the receivership of Fifth Avenue Ltd, would want to trade with Idealdirect. "We were desperately lucky," says Mr Fabian. "We have a history of trust and mutual respect built up over 18 years of trading and it served us well."

The MBO was completed as quickly as possible for sound reasons. "It was a question of confidence; given a further week we thought the business would disappear," he explains.

Although Idealdirect is not liable for the debts of Fifth Avenue Ltd, Mr Fabian and Mr Worth are making agreed ex-gratia payments to suppliers. "We feel our reputation is at stake," explains Mr Fabian. Employees have also been paid wages overdue from the period of collapse.

Mr Fabian has no qualms about conducting a MBO in the middle of a recession. "We're trading well with turnover 10 per cent up on last year, we've got our costs under control and I'm confident about the future," he says.

Eight weeks on, Mr Fabian admits he still has not quite come down from the high he experienced at the end of the MBO.

"The best part," he says, "was coming back to the office after it had all gone through, knowing we'd saved everyone's job and finding the staff had put on a surprise party."

Hester Thomas

Paul Fabian

Brian Worth

THE LAWYERS

Leading the blind

MBO LAWYERS think of themselves as businessmen and women first and lawyers second.

Often their key role is to supervise the deal. "There's a huge amount of transaction management," says Allen & Overy's Mr Anthony Keal. "Particularly in multi-jurisdictional MBOs." According to Mr John Kitching from Lovell White Durrant, this is particularly true when acting for the finance providers: "The institutions are looking for lawyers to project manage a transaction."

That means the legal advisers are not asked simply to handle the formal technicalities. "The client would be disappointed if you just gave legal advice," says Mr Geoffrey Green from Ashurst Morris Crisp.

"You're also asked to be a constructive problem solver and to give a much more rounded, judgmental view of the transaction."

It is an approach shared by others, including Mr Derham O'Neill at Clifford Chance: "Lawyers are increasingly involved at the strategic level and are used as a commercial sounding board. For example, we're sometimes asked about the public relations effects of a deal."

Buy-outs are now fewer and smaller, so an outsider would assume that competition between leading law firms has heated up considerably. MBO lawyers are split on the issue, however.

Mr James Davis from Freshfields thinks not. "Although occasionally financiers will go to a new law firm as a trusted second string – particularly when there is a conflict of interest – they're more concerned with quality and value for money than nitpicking on price."

Mr Green from Ashurst Morris Crisp would agree with the insistence on quality but is certain that "competition between lawyers is much fiercer than, say, a year ago".

It is a view shared by his counterparts in other firms. Mr Anthony Lewis from Cameron Markby Hewitt says: "Increasingly, venture capitalists won't take all their work to just one law firm." Stephen Barnard from Herbert Smith adds: "Clients are now much more likely to move around and people are working harder to keep the client happier."

If the financiers are staying with their established lawyers for the larger deals, it may be that they are more cautious because of the economically tight conditions. Mr Jonathan Blake from S J Berwin believes that "institutions like to deal with lawyers they feel comfortable with and who they know can handle the technical issues".

As Mr Peter Turnbull from Macfarlanes points out, "if you're the person buying in the external legal services, you can't go wrong instructing a recognised name. Someone who does the job more cheaply won't do it better."

Perhaps the greatest benefit experienced practitioners can offer clients is the saving of time. Lawyers well versed in MBOs know which are the main points in the transaction and can save time, money and their clients' patience by not wrangling over minor details.

However, the senior regional firms have not – as was once predicted – broken into the top ranks of MBO legal advisers. Many believe this is because the larger London firms have far greater resources and experience than their country cousins who are best at doing small deals more cheaply than their classier City brethren.

Lovell's Mr Kitching disagrees. "Law firms can break into this market. It's the relationships with the finance providers which count and in many cases the regional firms have built and continue to build those relationships."

So does it matter which of the top firms you go to? It is generally agreed that the leading firms can handle the technical issues equally competently. But as Mr David Ereira from Freshfields points out, "there are distinct differences in terms of the approach and the culture. So it's a question of how the service is delivered by a particular firm".

That is all very well for the financiers who have long-established connections with a wide range of suitable law firms. But for the management team, this will almost certainly be their first and only MBO the choice of a lawyer is more difficult.

"The venture capitalists are keen to advise management on which firm to use as lack of expertise slows the whole process down," says Mr Ian Sears from Clifford Chance.

"The management will have their accountants sitting beside them and the accountants will know the form and who's worth going to," says Mr Lewis from Cameron Markby Hewitt. "In the end, personal chemistry is often the reason why a management team chooses a particular law firm," he adds.

'In the end, personal chemistry is often the reason why a management team chooses a particular law firm'

Legal fees are a critical issue. "If the deal hits the buffers, then we would expect to share the financial burden with the banks by charging at a lower rate," says Mr Keal from Allen & Overy. The rigorous control of expenditure is confirmed by Mr Barnard from Herbert Smith: "People are very tight on fees these days and you have to justify your charges every step of the way."

Often great pressure is put on a law firm to operate on a flexible fee basis. Rarely will a leading London practice agree to work on a strict "no deal, no pay" arrangement but more flexible arrangements are possible. For instance, initial discussions and certain categories of preliminary work may well be carried out for no – or a heavily reduced – fee.

Mr John Penson from Lovell White Durrant says: "It is easier for me to adopt a more flexible approach to billing for an established client than for a complete newcomer." It also gives the client less incentive to shop around and demonstrates that we're being sensitive to the transaction."

In an economically depressed market, lawyers are clearly as aware as everyone else of the limitations of one-off deals.

Max Findlay

Leading solicitors

	Acting for: Equity/Debt leader	Manager	Total
Clifford Chance	79	27	106
Ashurst Morris Crisp	38	13	51
Allen & Overy	34	9	43
3i legal	37	0	37
Lovell White Durrant	22	7	29
Macfarlanes	22	6	28
Herbert Smith	17	9	26
Slaughter & May	10	13	23
Freshfields	19	3	22
S.J. Berwin	10	12	22
Dickson Minto	8	13	21
Alsop Wilkinson	5	14	19
Evershed Wells & Hind	2	16	18
Turner Kenneth Brown	8	9	17
Nabarro Nathanson	8	8	16
Norton Rose	9	7	16
Cameron Markby Hewitt	12	3	15
Travers Smith Braithwaite	7	5	12
Wragge & Co	2	9	11
Wilde Sapte	10	1	11
Linklater & Paines	7	3	10
Dibb Lupton Broomhead	2	8	10
Simpson Curtis	1	8	9
McGrigor Donald	3	5	8
Osborne Clark	1	6	7
Pinsent	3	3	6
Simmons & Simmons	1	5	6
Taylor Joynson Garrett	1	4	5
Dundas & Wilson	3	2	5
Kimbell & Co	0	5	5
McKenna	0	5	5
Berwin Leighton	2	2	4
Gouldens	2	2	4
Theodore Goddard	0	4	4
Titmuss Sainer	0	4	4
Others	38	120	158
None/not known/(duplication)	-44	9	-35

Qualification: in £10 million plus deals; acted in four or more.

Source: KPMG Corporate Finance

The role of accountants in MBOs has come into question

A conflict of interests

CONFLICT and economic uncertainty are vexing many of the accountancy firms involved in the buy-out market of the early 1990s.

Most remain bullish about prospects for business. But they are having to adapt their cultures to match new demands on their services.

Mr Richard Mead, national director of corporate finance at Ernst & Young, says: "It's been a funny market recently and very different from two years ago. But we have had a relatively good flow of business, particularly in our regional offices."

Mr Andy Pollock, senior partner of Rees Pollock, a small firm started just over two years ago by accountants from Ernst & Young, is optimistic. "There is money around," he says. "As interest rates fall, there will be a better rate of return."

What does continue is what he calls the "lunchtime entrepreneurs" who say they are interested in MBOs. He says he can screen out those who will not make it when they start asking about the hours involved, their salary and whether they will be able to keep the company car.

For others, the volume of business has slowed to some degree, in part because deals are taking longer to come to fruition. The difficulties have been particularly intense for the larger prospective MBOs.

The main problem, according to Mr Mead, is the paucity of senior debt. Banks which need to syndicate loans for the larger MBOs have lacked the confidence to do so.

"We are much busier than we were three or four years ago," says Mr Chris Beresford, head of the MBO unit at KPMG Peat Marwick. "But there is a degree of nervousness around."

He says banks realise they are more vulnerable after some of the highly leveraged deals of the late 1980s failed. They also face the uncertainty of the UK economy.

The accountants' role in MBOs needs to be kept in perspective. Mr Beresford pours scorn on those firms claiming to hold sway in deals. "It's not realistic," he says. "You can only say you have lead a deal if you have structured, financed and negotiated its terms."

Leading accountants

	Number of deals
KPMG Peat Marwick	128
Coopers & Lybrand	69
Price Waterhouse	54
Touche Ross	44
Ernst & Young	41
Arthur Andersen	33
Others/none/not known/(duplication)	10
TOTAL	379

Qualification: acted in £10 million plus deals
Source: KPMG Corporate Finance

There is a possibility that accountancy firms could provide for finance for deals. But the prospects are negligible – even apart from the issue of expertise. "We haven't got the money," says Mr Mead.

More importantly, accountants financing deals would raise further potential conflicts of interest, he says. "As soon as we do that, we are out of the contest for on-going audit work and we like to develop a long-term relationship."

That is because existing professional ethical rules forbid an auditor from holding shares in a client company. Mr Mead says that, as far as Ernst & Young is concerned, it would apply equally to other on-going services for a client.

In fact, the accounting firms' activities in MBOs involve two principal areas:

- Personal and corporate tax, business structuring, business plan development and other advisory work to the management team.
- Investigating accountancy and due diligence work for the financiers considering backing the MBO.

Mr Beresford estimates that his firm spends about three times as many hours on investigation work as on advisory work for management teams.

On the one hand, management advisory work can be far more commercially attractive, he says. On the other, a good relationship needs to be maintained with the finance houses by bringing them deals, to ensure that they turn to the firm to pass on due diligence work. That means bringing the teams to finance institutions.

One aspect of the work which can raise tensions with other, more conservative parts of the accountancy firms is the application of contingency fees, geared around payment only if the buy-out is successful.

"We prefer not to have contingency fees," says Mr Beresford. "We are still very old-fashioned. We think of working for an hour and getting paid for an hour. But we have got used to the idea, with a premium for success and a modest fee for failure."

A second area that is causing increasing tensions is the possibility of conflict of interest. Mr Pollock's firm tries to generate most work from finance houses such as 3i and AIB Capital Markets. "Can you be truly independent if you introduce MBOs?" he says. "It's a very grey area. On the other hand, you need to bring them in if you want the finance houses to bring deals to you. We don't want to be cut off."

He asks whether an accountant can be objective. In the extreme, they may strike a bargain with financiers to whom they have made the introduction but from whom they are looking for other business.

They could be carrying out due diligence on numbers they have have audited and on projections they may have prepared. They may ultimately hope to gain the audit of the numbers once the deal is done.

Mr Douglas Llambias, chief executive of the Business Exchange, a network of professionals for buying and selling businesses for up to about £20m, says he will not accept the accountants trying to introduce potential deals to levy contingency fees, or for the company's auditor to carry out advisory work.

"Contingency fees are not appropriate," he says. "When the potential fees are large, the pressure is enormous to get the deal done whether it is for the best or not."

With regard to the auditor, he sees it as "improper" that a firm supposedly acting in the best interests of the shareholders should be able to support a buy-out.

Mr Beresford admits that some finance houses not happy with the accountants bringing them the deal and also conducting the due diligence. But he says: "You have to be grown up about it. I would far rather it was a friendly guy from my own firm who found an error rather than someone from a rival firm. If there is a problem it is in everyone's interests that it is unearthed."

Andrew Jack

PROFILE: THE GAYMER GROUP

Discussions focus on price

NEGOTIATING a sale price with a vendor who is potentially your biggest customer is no easy task. It is no surprise, therefore, that Candover Investments' buy-out of Vine Products and Whiteways, Showerings and Warninks, the UK wines, spirits and soft drinks suppliers, from Allied-Lyons required lengthy discussions.

"It meant making sure you could see their point of view and where possible, within reason, trying to accommodate it. And hopefully they were doing the same for us," says Mr Stephen Curran of Candover Investments, which backed the management team led by Mr John Wilkinson.

Negotiations opened in July 1991 but the deal was not signed until February 1992. Mr Curran says: "We were in a series of protracted negotiations. "Price was the main sticking point, but our investigations took time too."

VPW, Showerings and Warninks businesses produce and market a wide range of alcoholic drinks, including Gaymer's Olde English, Copperhead and Babycham.

Advisory work is profitable, but good relationships must be kept with finance houses by bringing them deals

The new company will be named The Gaymer Group Europe and Mr Mike Dowdall, previously a main board director of Unilever, has been appointed chairman. VPW and Showerings are based mainly near Bristol and also at Shepton Mallet, Somerset. Warninks' main facility is in Holland. The combined companies have 1,300 employees.

In the 12 months to February 1991, combined turnover of the three companies was £178m with profit before interest and tax of £23m. The picture for this year is confused by a change of year end. Mr Curran believes profits will be lower but that the new company is doing at least a well as was predicted when the deal was struck.

It was Allied-Lyons who took its time at first. It had to evaluate all offers and only settled on the managers at the beginning of December. Candover believes this is because their offer was for both companies.

Candover was attracted to the buy-out because of the strength of the management team: "They appeared competent, hardworking, skilled and sensitive. They worked together, knew their business and they were clearly keen to do the buy-out," says Mr Curran.

He says the team's energetic enthusiasm for the deal showed they recognised that a buy-out demands a great deal of time as well as an opportunity.

Negotiations – suspended during the Christmas period – initially centred on price: "Allied-Lyons wanted between £150m and £160m but we settled on £140m in the end," says Mr Curran. Allied-Lyons received £115m in cash and £25m in vendor loans.

Equity for the buy-out is being provided by institutions investing through the Candover 1989 Fund, and CINVen, Legal & General Ventures and Advent International.

Bank term debt of £33m and working capital facilities of up to £35m are being arranged through Barclays Bank and National Westminster Bank and co-lead underwritten by Barclays, NatWest and Bank of Scotland. Mezzanine finance of £15m is being provided by Mithras Investment Trust and Legal & General Ventures.

These borrowings are necessary since the company tends to produce stock in the summer which is mainly sold over the Christmas and New Year period.

Once the price was agreed Candover had to conduct a thorough investigation of the company.

"We had to make sure the sales organisations would blend well together, find out whether there were any potential economies of scale in manufacture and ensure that the arrangements with the vendor who is our best customer were satisfactory to both parties," Mr Curran says.

"Overall the investigations revealed that the company had been doing well, but recently not quite so well. We had to satisfy ourselves that dip in profits was a temporary one."

Candover also had to satisfy its own board of directors that it was worth investing in some of the lesser known brands such as Camelot (a form of perry), Festival Vat (a cider) and Zapple (a speciality drink). The Gaymer Group Europe's branded portfolio is targeted at the C1, C2 and D socio-economic groups.

Mr Wilkinson, managing director of the new company, admits some of the brands have not had top priority in recent years: "We have launched the Gaymer Group Europe this year in a major marketing initiative. We are confident that the planned investment in the brands, plant and people will create a highly competitive, independent European drinks group."

Catherine Milton

PROFILE: POOLE POTTERIES

Second time lucky

IT WAS second time lucky for Mr Peter Mills when his buy-in/buy-out (bimbo) of Poole Potteries in Dorset, succeeded in October this year.

The £3.7m deal (including investment capital) which installed Mr Mills as the new managing director of the 119-year-old firm, was the realisation of a thwarted ambition.

He was the predator when two years previously he tried to buy the company from Pilkington Tile, a subsidiary of BTR, for Dartington Crystal, the tableware and giftware company of which he was then sales and marketing director.

In 1990 Dartington had been looking for an acquisition that would give it a retailing arm for the sale of seconds to tourists. The bid failed, because Dartington couldn't raise the then well-over £4m wanted for Poole. Rockware Group – the glass and packaging company which owns Dartington – made the mistake of turning to BTR for help in a cash-and-notes deal, and was itself promptly swallowed by BTR.

The equity funds were raised through Murray Johnstone, County NatWest Ventures, and debt from Lloyds bank locally. They were advised by west country investment bank, Rowan Dartington. It helped that the price had dropped to £3.7m. (A large part of the price was for the site which had lost value in a depressed property market).

Murray Johnstone took a major share of the equity, but the deal took the form of a ratcheted arrangement whereby the management share of equity increases if the venture performs well. The debt-to-equity ratio was around a modest £1, with only £1m of senior debt put in on day one.

The buy-out team consisted of Mr Peter Mills, who left Dartington in 1990 and Mr Peter Henness, also formerly of Dartington Crystal. They became managing director and finance director respectively. The rest of the team consisted of Mr Peter Davis, who became operations director and Mr David Walton and Mr Tony Holdsworth – both of Poole Pottery – who became production and sales directors respectively. Mr Roland Denning, Sock Shop chairman, became non-executive chairman.

The negotiations over the bimbo took a protracted nine months. "It was an anxious time. As to be expected from a Scottish finance house, they went over every aspect of the business with a fine tooth comb," says Mr Mills. "But they were extremely supportive once they had decided to go ahead.

The staff response has been positive and already more flexible working hours have been introduced

"For example, they put up more money in equity than originally intended, so that the pottery is very well structured financially."

Poole is one of Britain's best-known pottery firms. It was set up in 1873 and, in its premises at The Quay on the seafront at Poole, it is an important tourist attraction, drawing 750,000 people a year. The pottery's hand-made tableware of the 1920s and 1930s, with their striking floral and geometric Art Deco patterns, have become collector's items, selling at sale houses for as much as £500 an item.

However, in the past decade the pottery had begun to show the result of neglect in the design department and a general lack of investment.

"It seemed an ideal candidate for a buy-out. There were obvious similarities with Dartington's, where I was then working as sales and marketing director.

"Also, the pottery had been suffering from neglect – its potential unexploited, especially in the tourism side of the business," says Mr Mills. The new team plans to re-organise the tourist aspect at The Quay and to re-introduce the once-popular tours of the workplace.

"The root of the problem appeared to be that Poole Pottery was not part of BTR's core investment strategy. It was acquired almost inadvertently by BTR, whose target was Pilkington Tiles; the pottery was just part of the Pilkington parcel," says Mr Mills.

In the three or four years before the bimbo, Poole Pottery made little or no profit. "Performance was flat and the real results easily get lost in a big group's figures," says Mr Mills. The new team hopes to build on Poole's brand name – it consistently comes in the top three in public recognition surveys of the pottery field.

Mr Mills plans to increase manufacturing capability and improve the marketing sides. "The UK trade side is solid and just needs to be developed further. Exports, which make up 40 per cent of trade sales, also have massive potential which has never been exploited. It just needs effort."

The staff response to the bimbo has been positive and already more flexible working hours have been introduced. This may be partly due to the fact that, although there is the possibility of some rationalisation, Poole Pottery plans to increase its workforce by 30 per cent over the next four years.

Staff reaction to a return to private ownership has been favourable, according to Mr Mills. Of the 190 people employed, at least 50 have been with the company for more than 20 years," he says.

Mr Mills claims that this buy-out is to be no quick in-and-out operation. "We hope to see Poole Pottery in the long run as the core to a group of brand names in the same fields, so once we have the company growing again, we'll quite possibly be looking for acquisitions."

William Saunderson-Meyer

Pots in the making: Poole Pottery plans to increase its workforce by 30 per cent over the next four years

MANAGEMENT BUY-OUTS 12

Larger management buy-outs 1988/1992 (total funding £m)

£m	1988	1989	1990	1991	1992
10-25	Kwikses Chemicals (10) Radstone Tech (10) Celebrity CF (10) National Express (10) *Lowfield (11) Burlington Int (12) Motor World (13) *Bam Stewart (13) AMG Inds (13) Harrap Publishing (13) *Autodesq (13) *Cairnmont (14) Grand Transport Systems (14) Lowndes Lambert (18) Grampian CF (18) Peerless (18) Maccess II (18) ABI Caravans (20) John Perring (21) Welland Homes (21) Travellers Fare (21) *European Brands (21) Meteor (22) Yorkshire Rider (23)	Busways (10) Citytab (10) *Rosenthal (10) Fine Art Wallcoverings (10) *Range Valley (11) *Abacus (11) Sockers Silks (11) Coin Industries (11) *Maison Caurette (11) Lancashire Enterprises (11) *Haigh Castle (12) Golden West Foods (13) *Severn (13) Tallent Eng (13) Horlicks Farms & Dairies (13) *Valor Stoves (14) *Country Casuals (14) Country Holidays (14) BREL (14) Eurovein (14) *Hill Leigh (15) May Gurney (15) *British Air Ferries (15) *Exide Batteries (16) Wilcomatic (17) Geest CD (17) Godiva (17) *Britannia Data Mgt (18) Barbour Campbell (19) Mercado (20) Solicitors' Law Stationery Soc. (20) *ServiceTec (20) Harland & Wolff (21) Slade (21) *Thames Int (22) *Robatex (22) *Hamleys (24)	Mercury SOS (10) Viscount Catering (10) Peter Cox (10) *Wilcox (10) Chemical Manuf. & Refin. (10) Morris Homes (10) Saab (10) *Fairmead (10) *Anglian Fast Food (10) SMT Omnibuses (10) Lambert Smith Hampton (10) Myge CSE Aviation (10) *East Lancs Paper Mill (11) Eaton Williams (11) *Jolliand Sound Services (11) Fogarty (12) Licensed Clothing (12) Camb. Capacitators (12) Premium Life (12) John Wilman (12) *Caxoons (14) *Harpers (14) Teamsource (14) English Glass (15) *Lydashourne (15) *Canonbury (15) *Betta Stores (16) Kosset Carpets (16) Macfarlan Smith (17) Goldcrest (17) Alexander Drew (19) Flexpack (20) Staffs Tableware (20) *Wimpy Restaurants (20) Toplis & Harding (21) WW (21) Saga (24) Baileys (24)	*Ambion Homes (10) Davenham (10) Plessey/world (10) *Blanco (11) *Boythorpe (11) Amcliffe Homes (11) Samuel Banner (11) Games Workshop (11) *Wallace Int (12) Carpetland (12) *Drawlane (12) Gibson International (12) Lodge Card (13) Power Group International (13) Bramall Dealerships (15) *Sitex Security Prods (15) *Systems Reliability (16) *Eagle Taverns (17) Kingsgrange (17) *BrightReasons One (18) DRG Litho Supplies (23) PL Holdings (24)	*Aadie & Vision Furniture (10) Coolkeeragh Power (11) *Whitworth's Produce (11) Cascade Clubs (12) Dew Group (12) Prontaprint (12) Edgemond Group (13) *CCA Stationery (14) *Chamberlain Phipps Group (14) *Harrisons Industries (14) Oudis Byfach (15) Hamlet International (16) Vymura International (16) Nova International (16) Inspectorate (18) Mark Birkbeck (18) Stonefield (20e) *Discovery Inns (23e) *RSA Advertising (23) Zotefoams (23) Foster Menswear (24)
25-50	Gooding (26) *FJC Lilley (27) Harveys Furnishings (28) Mono Pumps (29) Eurocamp (32) UK Shoe (36) Dwek (37) *Needwood (38) VF Int (39) Alma (40) Goldsmiths (40) Sheffield Forgemasters (42)	Elizabeth Shaw (25) Anglia Cecon (25) AEC (28) *Beacon (29) Trinity (31) Bell Fruit (32) Fenchurch Insurance (32) *Court Cavendish (35) Norwich Corrugated (36) Britannia (36) Nottingham Group (37) MBS (41) Video Arts (44) Meco Int. (45) Healthcall (46) Illingworth Morris (49)	Keller (26) Hozelock (27) *Ravenhead (27) Roxboro (31) Appledore (31) *United News Shops II (33) Normand Motor (34) Utd Precisions & Fabric. (35) Inveresk (40) British School of Motoring (42) *Walter Alexander (42) *David Brown (46)	Babcock Prebon (25) *Lyric Hotels (26) *Bison Holdings (31) Conder Products (34) Century Inns (34) Eurovein II (34) Blue Arrow Personnel (36) RPC Containers (37) Nelson Hurst (38) MediMedia (41)	Firsteel (26) Clyde Port (26) Swift Transport (26) Standard Fireworks (27) British Technology (28) *Centric Pubs (29) Civil & Marine Slag Cement (29) *Marr Holdings (30e) International Transport (33) Hollywood Group (33) Sycamore Taverns (35e) Medway Port (41) Salt Union (46)
50-100	*Financial Ins (55) York Trailer (61) Glass Glover (62) EP (68) ITC (70) *Lewis's (74) Palmer & Harvey (85) Response (97) IMS Lycrete (98)	MCD (52) Tyzack (52) *Crocklords (53) United Carriers (55) Gill & Duffus (58) Kenwood (58) *Square Grip (69) Highland Participants (73) *James Neill (79) Strand VCI (89)	Hay Group (50) Fellowgrange (73) Really Useful (77) Anglian Windows (84)	*Enterprise Inns (56) West Midlands Travel (71) *Ushers (73) National Transcommunications (75) *RMS (95)	Isler Group (54) Aerostructures Hamble (54) *Unicorn Abrasives (56) Bowglaze (62) *Teesside Holdings (63) Primary International (73) Caledonian Newspaper Pub. (94)
100-250	Invergordon (116) British Fuels (134) Hollis (146) Argus Press (207) Virgin (248)	Ryan (113) London Clubs (125) Maritime Transport Servs (155) MW Marshall (175) Charles Church (203)	Landhurst (158) Yardley/Lentheric (160) *Jarvis Hotels (215)	Brunner Mond (101) Taunton Cider (101) Data Sciences (103) Devro (106) Field Packaging (121) Midlands Newspapers (134) Bristow Helicopters (209)	Budge RJ (103) Gaymer Group Europe (140)
250+	*Cope Allman (265) SPCC (273) Bricom Inds (405) *Lowndes Queensway (450) Reedpack (605)	Allders (260) Magnet (667) *Gateway (2,375)	Del Monte Foods (256)		

Larger management buy-outs are taken as those with total funding of over £10m (subject to allowance for inflation until 1986).
UK MBOs include MBIs (indicated by an asterisk), but exclude leveraged acquisitions where the managers' stake is incidental, refinancings and UK funding of businesses with overseas head offices.

Source: KPMG Corporate Finance, October 1 1992

Charles Batchelor takes a look at how to stage a buy-out

A variety of skills needed

MOST buy-outs have one thing in common. They are carried out by management teams who have never done it before. This makes negotiating a buy-out a particularly stressful experience for the managers involved.

Executives, often from small corporate divisions or subsidiaries and without a financial background, find themselves dealing with venture capitalists, bankers and other financial specialists for the first time.

However, a wealth of specialist advice can be called upon from accountants, lawyers and the venture capitalists themselves. The buy-out is now much better understood as a means of restructuring business than it was a few years ago and wide range of literature is available.

The first step is to put together a management team. Financial backers expect to see a well-balanced group of managers headed, preferably, by some with managing director experience. It will probably also have to include people with financial, marketing and production skills.

The financiers will be looking to back people with senior experience but who have also not lost touch with the realities of doing business. Running your own small company is very different from managing part of a large organisation with extensive support systems in place.

Keep the buy-out team to a manageable size. Most involve three or four people. This is enough to provide a spread of skills while reducing the risk of disagreements.

It is also important at an early stage to find out whether your business might be available to buy. Some large companies refuse outright to allow buy-outs on the grounds that if there is untapped potential in the business it should be exploited within the corporate structure.

However, the depths of the present recession have meant that far more corporations are being forced to consider the sale of non-core or under-performing parts of the business. Managers are still advised to tread warily when approaching head office about a buy-out in case an unwelcome approach damages their career prospects. It may make sense to use an accountant or another business advisor to make an anonymous approach in the first instance.

If it is for sale, will your proposed buy-out be able to attract finance? Venture capitalists and other financial backers prefer to support mature businesses in low technology areas with strong positive cash flows.

The bankers in particular want to be sure that cash flows will amply cover interest charges and will not be keen to support businesses with uncertain prospects.

Advisers should be chosen for their experience in the buy-out field and for their ability to get on at a personal level with the management. You will soon know if the size of the deal contemplated is suited to the financial backer.

The adviser will be able to help management over what is often the most daunting obstacle – negotiating with the boss. Many managers find it difficult to adopt a dispassionate negotiating stance.

The professional adviser can take the heat out of the negotiations and is also freer to point out any the weaknesses of the business.

The advisers will also be able to help with the preparation of a business plan though it must remain demonstrably the work of the management team. It should explain the background to the buy-out and describe the managers' experience, the products, the market and the strategy for future development. Summaries of past and projected profits, balance sheets and cash flows should be included.

The plan should start with a short summary of the main points. Unless this grabs the venture capitalist's attention he is unlikely to go on and read the rest of the plan. Avoid unduly elaborate plans. Financial backers are rarely impressed with elaborate projections of the future which can be upset by any number of unforeseen circumstances.

The financial commitment demanded of the managers may be small in terms of the overall cost of the deal – managers would typically be expected to put up between £25,000 and £50,000 each – but it is still likely to be a considerable sum in relation to the individual's financial resources.

In return, the managers will obtain a stake in the ordinary equity which far exceeds their relative financial contribution. Backers are happy to go along with this because they believe the managers will be highly motivated to do well.

Some buy-outs involve "ratchets" – agreements whereby the managers increase their shareholding if they meet certain targets. Ratchets have fallen out of favour recently because they are seen as further complicating the deal and encouraging a short-term approach on the part of the management.

What happens if the buy-out does not go ahead? Professional fees may already have mounted up. It is common practice to reach an agreement with the vendor for him to meet these costs. If this is impossible the leading financial backer will normally agree to pay.

Even as they are negotiating their independence, managers need to give some thought to what will happen in three to five years time when their financial backer may be thinking of an "exit". Financiers normally expect to sell or float the business so as to realise their capital gain. The route chosen will depend on how well the business does, on stock market sentiment and on whether a potential buyer is looking for acquisitions at the time.

The buy-out period is an exhausting time because management has to run the business while conducting negotiations. Once the deal is struck managers can concentrate on the business. They are then likely to find that running a completely independent company without head office to rely on for support requires a new set of management skills.

European Finance and Investment: **Belgium**

SECTION IV Thursday December 3 1992

Business wants to attract outside investment and yet retain a degree of national management autonomy. This is a perennial dilemma for Belgium, which is certain to be at the core of the European single market, writes **Andrew Hill**

Keeping in the fast lane

The Bourse (Stock Exchange) in Brussels (left) and, by way of contrast, the ultra-modern Centre de la Monnaie, where the first Town Mint was established in 1420 (photographs by Ray Roberts)

BELGIUM is inexorably moving towards economic and monetary union with its neighbours – Maastricht treaty or no Maastricht treaty.

EC-wide approval of Maastricht would of course profit a small country like Belgium, but if ratification cannot be achieved and a two-speed economic Europe is the only alternative, Mr Philippe Maystadt, the country's finance minister, says Belgium will be in the fast lane.

"We export 75 per cent [of total exports] to our partners in the European Community, and 60 per cent towards our three direct neighbours," he says. "It is essential for Belgium to be in the same group as Germany, France and the Netherlands."

It was Mr Maystadt who decided to tie the Belgian franc to the D-Mark in June 1990, a policy acclaimed by both the IMF and OECD in recent reports on the Belgian economy.

"In a way, we have already lost our sovereignty, at least in the monetary field," he admits. "We see monetary union as a way to recover collectively that sovereignty. At least in a European central bank we would have something to say. Today [when the Bundesbank makes monetary decisions which affect the Belgian economy] we have no say."

With or without the treaty, Mr Maystadt says Belgium must continue to aim for the Emu criteria – in particular, the strict requirement to bring the country's large budget deficit down to 3 per cent of gross national product by 1996.

For the long-term outside investor in Belgium, such determination must be good news. It means that, geographically and politically, Belgium is certain to be at the core of the European single market.

Recent events have shown the value of this strategy – particularly links with the D-Mark. Mr Marcel Cockaerts, chairman of Kredietbank, one of Belgium's three largest banks, points out that the Belgian franc stayed firm amid September's European currency turmoil, and at one point was even stronger than the D-Mark.

"To step back from [the policy of shadowing the D-Mark] would mean the loss of our credibility for the next 100 years," he warns.

However, in spite of this stable foundation, the government must overcome a number of short-term domestic hurdles before it can rest.

The centre-left coalition – formed in March – has introduced rigorous 1993 budget measures aimed at bringing the budget deficit down to 5.2 per cent of GNP by the end of next year. That compares with 6.3 per cent for 1991 and a forecast 5.9 per cent for the end of this year.

But whether the government has the political clout to keep to this line largely depends on the parallel attempt to push through long-awaited constitutional reform.

This package would devolve more powers, including financial responsibilities, to Belgium's regions and linguistic communities. The latest signs are that the government will be able to win the two-thirds majority it requires in parliament for such reform, albeit narrowly. Approval would immeasurably strengthen the government – and its economic policy.

Where does that leave the humble investor or business in Belgium?

Analysts say the political turmoil – as always in Belgium – has made little difference to business. Most Belgian companies remain in the doldrums, becalmed by the same economic downturn that is hampering their counter- parts in the rest of Europe.

Few forecasters predict GNP growth of more than 1.6 per cent this year, and 2 per cent next year. The average forecast is more like 1.4 or 1.5 per cent for 1992. Since 1990, annual investment growth has slowed down from 12 or 13 per cent to less than 3 per cent.

Mr Jan Herremans, director of the economic department at the Fédération des Entreprises de Belgique (FEB), says that orders from overseas are very low and there is little sign of improvement this year or in the first half of 1993.

Domestically, according to a recent report from Namur Assurances du Crédit, Belgian companies are suffering from the diminishing profitability of capital stock, high interest rates and the general drop in profits. As a result, the Belgian credit insurer expects bankruptcies this year to exceed 5,000 for the first time. Company failures, Namur says, have increased by 26.7 per cent against 1991 in the third quarter alone.

The gloom is reflected in the stock market, where most industrial stocks which dominate the Brussels bourse are still bumping along the bottom of their cycle.

Exceptions include the Belgian banks, buoyed up by takeover news and ripe for rationalisation. Analysts admit it is not clear how such changes will come about. The social and financial cost of a merger between the big players – each of which has a branch on every Belgian high street – would be too great to countenance.

Nonetheless, it is obvious that banks which continue to concentrate on the Belgian market are not going to prosper once internal EC frontiers come down.

One possible route is takeover from outside Belgium, or co-oper- ation with other financial institutions. For example, Banque Bruxelles Lambert (BBL), another of the Belgian big three banks, has been courted recently by Internationale Nederlanden Groep, the Dutch banking and insurance group. A bid and co-operation in the lucrative "bancassurance" field was under consideration.

BBL's announcement 10 days ago that the bid would not take place has spared Belgian business further heart-searching about one of the country's perennial dilemmas: how to attract outside investment and yet ensure that Belgian companies retain a certain national management autonomy.

Mr Cockaerts of Kredietbank, for example, says he would consider it "an impoverishment of the whole of Belgium" if too many great Belgian names were lost to foreign buyers.

Abandonment of the ING/BBL deal will not kill this highly political issue. It is bound to come to a head when the government – bent on privatisation – announces the first sales of state-owned enterprises before Christmas.

In the context of the long-standing tension between French- and Flemish-speakers in Belgium, this is not just a question of national pride. For example, the government of Flemish-speaking Flanders is already expressing its concern that the state might favour sales to francophone buyers.

In reality, however, there is little that can be done to prevent foreigners buying into Belgium – and indeed there is little that the government wants to do.

Belgian business can only lament that after the war, when other countries were building up national champions through restrictive share structures and general protectionism, a job-starved Belgium was opening its borders and boardrooms to all-comers.

It was perhaps a case, agrees Mr Jean Peterbroeck, the distinguished broker who heads the Brussels bourse, of too much free trade, too soon.

More optimistically, however, it is now an indication of the continuing attractiveness of Belgium to foreign investors, in spite of the downturn.

The government has done its best to maintain the incentive for inward investment, by pursuing its successful "co-ordination centres" initiative – tax breaks for multinationals which establish administrative headquarters in Belgium.

At the same time, Belgium's regions – Flanders, French-speaking Wallonia and Brussels itself – play an important role in attracting investment, as befits a country which will formally become a federal state if constitutional reform is approved.

Mr Georges Walckiers, who heads BBL's corporate finance department, warns potential investors against reading too much into the unduly gloomy picture of a Belgium saddled with large debts and riven by regional strife.

If Belgians were asked to be frank about their country's attractions, Mr Walckiers suggests they might quote Talleyrand.

Asked what he thought of himself, the French statesman replied: "Très peu quand je me considère, beaucoup quand je me compare" – not much when I consider myself, but a great deal when I compare myself to others.

Andrew Hill profiles the finance minister

Maystadt faces the greatest challenge of his career

DURING AN almost uninterrupted 13-year period in government, Mr Philippe Maystadt has headed each of Belgium's three money ministries – budget, economic affairs and, since 1988, the top job of finance.

In 1990, aged only 42 and just two years into his term in office, he was named Finance Minister of the Year by Euromoney magazine. The award – which be characteristically described at the time as an accolade for the ministry team, not for him alone – was based on the series of financial reforms which he had helped put in place.

He is justifiably proud of those achievements. In particular, he claims to have changed "the rules of the game" for takeovers, to prevent a repeat of the clandestine stake-building through which Mr Carlo De Benedetti nearly gained control of Société Générale de Belgique, Belgium's largest holding company, five years ago.

Now that the smoke has cleared away from Belgium's "big bang", it is obvious that, in some cases, the noise was greater than the actual changes wrought. Recession has held back some of Belgium's financial markets. In particular, the Brussels stock exchange does not yet compete with larger European markets in the way in which Mr Maystadt might have hoped, and the embryonic futures and options exchange has not yet taken off.

On the other hand, Mr Maystadt's policy of linking Belgium's currency firmly to the Deutsche Mark has certainly paid off, both in terms of general investor confidence, and in the government bond market, where, helped by parallel reforms of the market itself, Mr Maystadt has had no difficulty in overfunding the government deficit in successive years.

Philippe Maystadt: "We have no choice: we have to go on with the convergence programme" (photograph by Terry Kirk)

Now, however, he faces the greatest challenges of his career, at home and abroad. Within Belgium, as a member of Mr Jean-Luc Dehaene's shaky centre-left coalition, he must convince fellow citizens that a stringent economic policy is essential to their future well-being. At the same time, he must seek ways of reviving the run-down industrial areas of Belgium – including Charleroi, where he was brought up – and making them attractive to outside investors.

As a francophone Social Christian, Mr Maystadt speaks with the same political voice as Mr Dehaene, a Flemish Christian Democrat. If the government falls, or goes soft under domestic political pressure, then the risk is that the budget deficit will "snowball" out of control, and Belgium will miss the first train to European monetary union (Emu).

In fact, Belgium's European and domestic economic ambitions are identical. Mr Maystadt believes it is "essential" that his country is in the same Emu group as the Netherlands, France and Germany. In addition, the Emu target figure of a budget deficit of 3 per cent of gross domestic product "corresponds exactly to what is needed in Belgium to get rid of the snowball effect". In that sense, says Mr Maystadt, the Maastricht treaty is only "one more good reason" for reducing the country's budget deficit.

Parliamentary approval of the parallel constitutional reform programme – which devolves more powers to Belgium's regions and language communities – will strengthen Mr Maystadt's hand. The government has already had to revise its original 1993 budget plans – criticised as too soft by economic analysts – to take account of slipping growth forecasts.

According to Mr Maystadt, who fronts his country's economic policy in the EC, those adjustments have been welcomed by Belgium's Community partners. Criticised in the past for a lack of political courage, he is sure that the country can make it into the promised land of monetary union.

"We really have no choice: we have to go on with the convergence programme even if the Maastricht treaty is not ratified, because that is the only way to cut the snowball effect definitively. We are determined to go on," he says.

The privatisation bandwagon has finally arrived, reports **Andrew Hill**

State asset sales may ease deficit

The post office may not be ready yet for the private sector

MERCHANT banks and brokers are licking their lips, potential buyers are readying their cheque-books, and politicians are sharpening their ideological oratory: the privatisation bandwagon has finally rolled into Brussels.

Its arrival is not a surprise – the last government passed a law in March 1991 permitting sales of public assets – but it is ahead of the original schedule and far more heavily laden than most observers expected.

A year ago, privatisation was hardly discussed in political circles. That was natural. Belgium's political establishment, still reeling from a confused protest vote in the November general election, had better things to think about. Even in March, when Hill Samuel, the British merchant bank, and Brussels-based Petercam Securities produced a valuation of state enterprises, the chances of a sell-off beginning before the end of the year seemed slim.

But Mr Philippe Maystadt, the Belgian finance minister, has been considering a preliminary list of mainly financial institutions which could be privatised. He indicated to the Financial Times early in November that one of those companies could be selected for an early sale, to test the water before Christmas.

The new centre-left coalition, which was put in place only in March, has moved fast, and the main reason is money. In an interview with the FT in June, Mr Jean-Luc Dehaene, the Flemish Christian Democrat prime minister, tentatively suggested that privatisation might be considered as a way of easing Belgium's large budget deficit – the principal obstacle to the country joining the first wave of EC member states in economic and monetary union.

In July, the government promised a BFr50bn (£1bn) four-year privatisation programme as part of its budget for 1993. But in October, the worsening European economic situation obliged the government to adjust next year's budget to cover a likely shortfall of BFr21.8bn. Privatisation will bridge half that gap. The government has increased its target for next year's sell-off proceeds from BFr15bn to BFr25bn. A further tranche of BFr15bn will be raised in 1994, and then BFr10bn in each of the next two years.

Meanwhile, the politicians have stepped up the ideological argument. Shortly after the supplementary budget measures were presented, Mr Dehaene told an investment seminar in Brussels that it would be a no-holds-barred privatisation programme – despite the strictures of the 1991 legislation which indicated that at least 50 per cent of public enterprises should remain in state ownership.

The prime minister said that the committee of "four wise men", appointed to investigate the possibilities for privatisation, had been given a very wide mandate. "No possibility should be excluded, either in the selection of assets to be sold, the identity of the buyer, or the size of the shareholding for sale," he *told* the seminar.

The speech upset Mr Dehaene's socialist coalition partners. Mr Guy Coëme, the deputy prime minister, who is also responsible for public enterprises, hit back a day later, arguing that the prime minister's comments did not reflect the government's position.

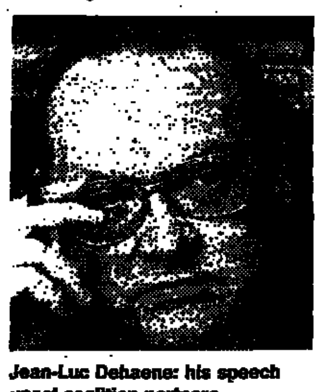
Amid all this excitement, Mr Maystadt – a French-speaking Social Christian, and therefore in the same political camp as Mr Dehaene – remains calm. For one thing, he argues that the state needs the money, and that if politicians do not like the idea of privatisation then they may have to settle for further unpopular cuts in public spending. "If you put the matter on the theoretical level, then of course there are differences of opinion," he says. "But I'm sure that when we come up with concrete proposals, we will overcome all ideological difficulties."

As for the question of selling off more than 50 per cent of state enterprises, Mr Maystadt concedes that in some sensitive areas – including energy and railways – the state might retain control through a "golden share"; but he adds: "If it appears that we can get a better deal and we are able to sell our participation on better terms if we allow control by a newcomer, then why not?"

In fact, the government does not have much family silver to sell, partly because it never had a strong nationalisation policy, partly because some publicly-owned enterprises belong to regional, community or municipal administrations rather than the central government.

The Petercam/Hill Samuel report estimated that a range of industrial and financial enterprises could raise up to BFr318bn if all the shares held by the state were sold. That would take time. Large state industrial and commercial companies like Belgacom, the telecommunications group, the state railway and the post office are only in the first stages of conversion to a new management philosophy, aimed at transforming bureaucracies into private sector businesses.

Analysts believe the



Jean-Luc Dehaene: his speech upset coalition partners

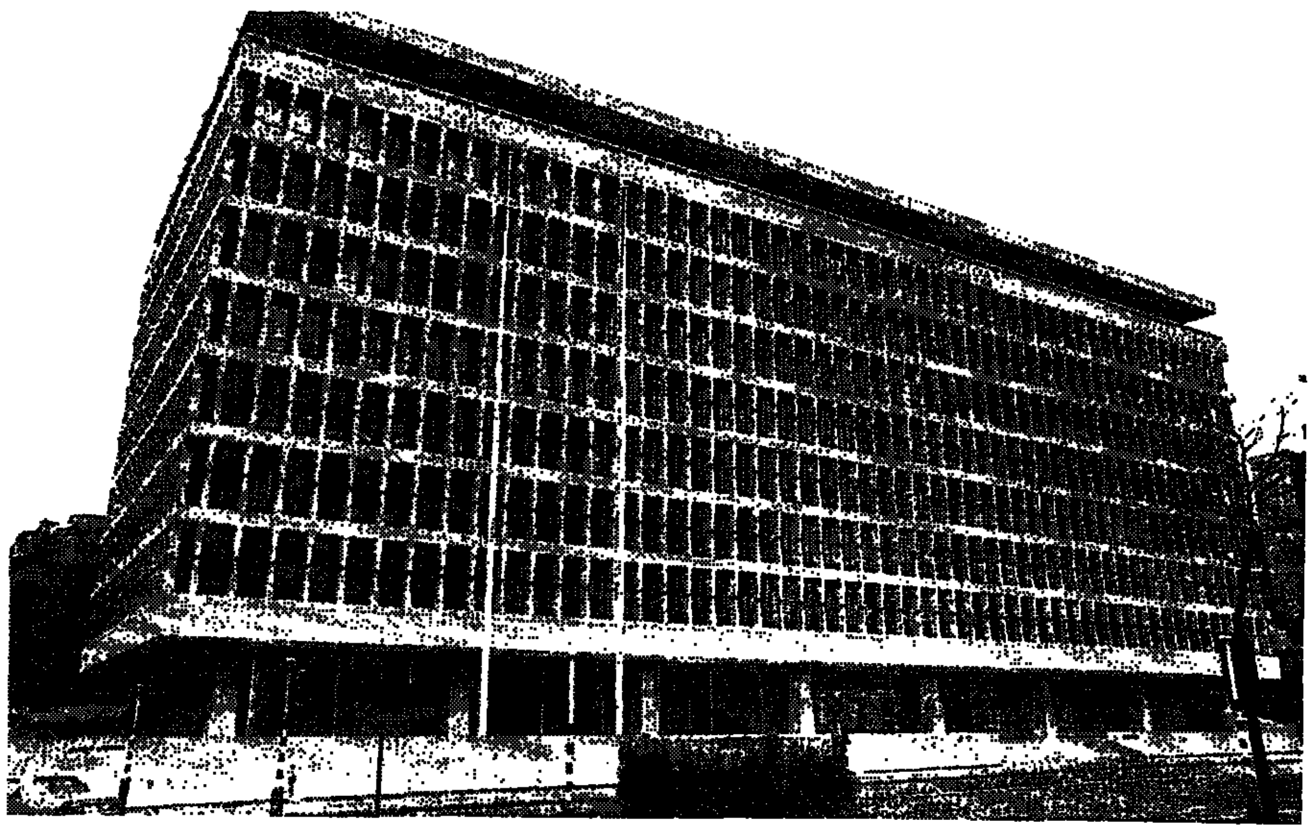
preliminary list will be more modest. It is likely to include stakes in financial institutions such as the Caisse Générale d'Epargne et de Retraite (CGER), the Société Nationale de Crédit à l'Industrie (SNCI) – some shares in which are already listed on the Brussels bourse – and the Société Nationale d'Investissement (SNI). Shares in Distrigaz, a natural gas utility, may also be earmarked for sale.

The government says the terms of the sale will be decided on a case-by-case basis, but for the time being it seems unlikely that major public flotations will be considered until larger state enterprises such as Belgacom are ready for privatisation in two to three years' time. Finance ministry officials argue that the capacity of the Brussels bourse is too modest to cope with a large influx of new shares.

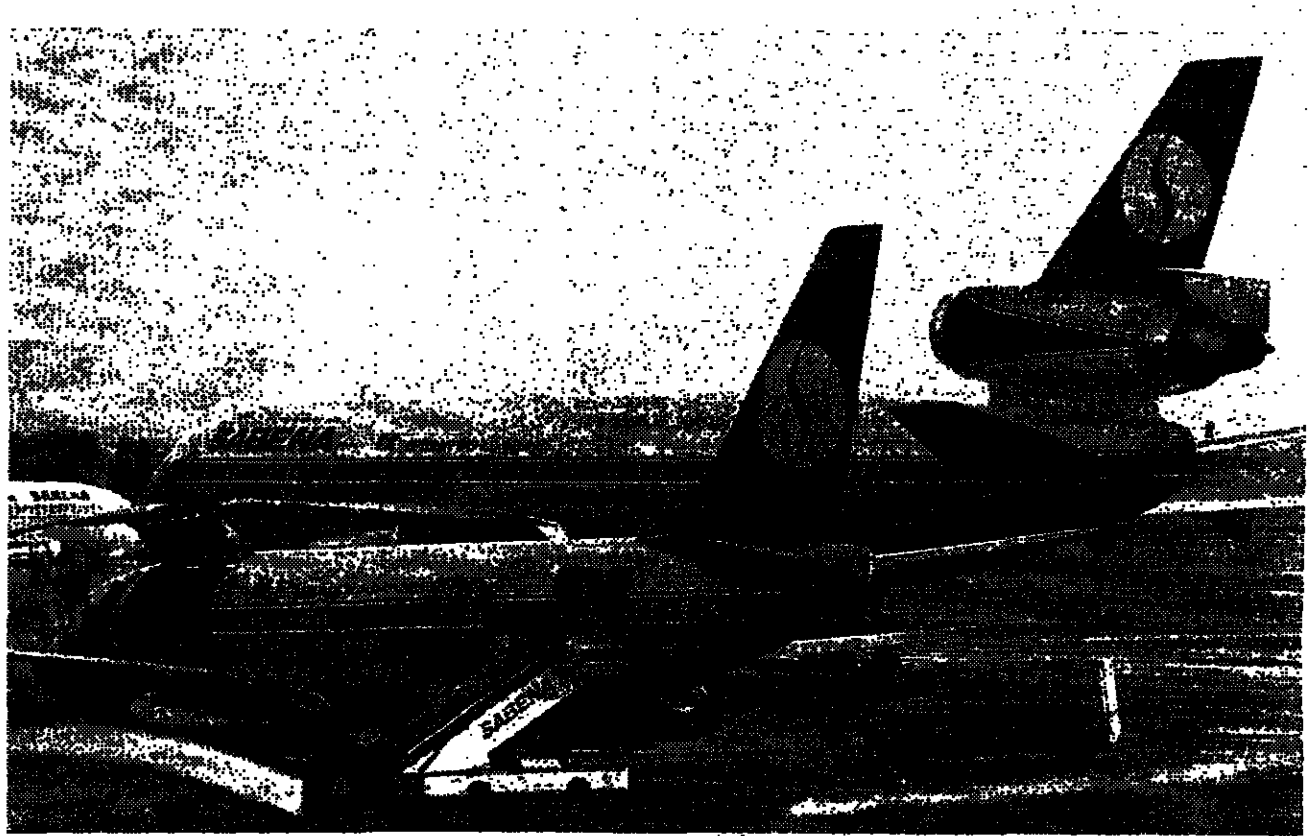
If Belgium does go down the route of sales to specific buyers, rather than the British-style public flotation, those with a stake in the future of the bourse are likely to be disappointed.

"I think it's in the Belgian interest to do this in the British way, especially as we have a [stock] market with much more depth than, say, Italy," says Mr Alain Camu, managing director of Petercam and a director of Hill Samuel. "There have been so many companies leaving the stock exchange that we would love to take a good chunk [of the sell-off]."

Uncertainty about exactly how the Belgian government will achieve its BFr60bn target does not seem to have deterred potential investors. According to the finance ministry, many tentative approaches have already been made by potential buyers from inside and outside Belgium; and London-based advisers, starved of privatisation business at home, have been filling Mr Maystadt's in-tray with inquiries. The first sale prospectus is eagerly awaited.



Banque Bruxelles Lambert, one of the country's three leading banks, is no longer facing a bid from Internationale Nederlanden Groep



Flag carrier nationalism: Sabena has had to be bailed out

(photograph by Glyn Genin)

David Gardner looks at prospects for foreign predators

Grip remains tight on crown jewels

BELGIUM operates one of the most open economies in Europe, and yet has a reputation for being sensitive about foreign hands getting near its corporate crown jewels.

The psychological starting point for this concern was the unexpected and predatory raid on Société Générale de Belgique, Belgium's largest holding company, launched by Mr Carlo De Benedetti, the Italian financier in 1988. Its latest benchmark was the planned bid for Banque Bruxelles Lambert (BBL), one of Belgium's three leading banks, by Internationale Nederlanden Groep (ING), the Dutch banking and insurance company.

Discussion of this topic is usually peppered liberally with reference to the need for an "ancrage Belge" – an anchor of Belgian control over its manufacturing base and financial resources, to ensure that corporate strategy and economic development are designed at home rather than abroad.

As in most EC countries, a distinction is made between foreign investment (invariably welcome) and takeovers by foreign companies – to be regarded with suspicion.

But in practice, as opposed to the debate, there is little resistance to outside encroachment among Belgium's business elite, and little more than faint regret among government policy-makers.

"I think it's unrealistic to think that we could prevent the sale of Belgian assets," says Mr Phillipe Maystadt, Belgium's highly-regarded finance minister. "We are interested in a European market, so there are some rules we have to apply. The European single market doesn't allow us to prohibit sellers and buyers from other members of the EC.

"To put it another way," he adds, "in the period 1985-90 there were 222 sales of Belgian assets. Of these 59 went to French companies, 57 to Dutch companies and 28 to British companies. Most of them, indeed, are sales to European companies, and in fact to neighbours. We have no way to prevent that, and there may be no desire to prevent that."

If there were, it would be a bit late to start.

Belgium is a small country which relies on its open economy, good ports and infrastructure, and high productivity, to earn a much better than average living in the international marketplace. According to Générale de Banque, Belgium exports per capita twice as much as Germany, and five times as much as Japan.

From the 1960s onwards it has turned itself progressively

Gerard Mestrallet: punctiliously observed local sensitivities

into an attractive base from which multinationals can serve the European market. As a consequence, 32 per cent of Belgium's top 3,100 companies are owned by foreign interests, according to a University of Louvain study. The Louvain analysis points out, moreover, that this greatly understates the position, since these multinationals account for 43.5 per cent of total added value generated in Belgium.

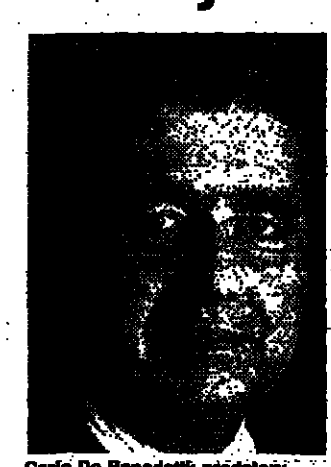
Yet familiarity and ease with foreign investors did not prepare Belgium's tightly-knit corporate clans for the De Benedetti attempt to take over La Générale. Part of the reason was sheer lack of exposure to corporate raiding.

When Mr De Benedetti made his move, Belgian business had experienced only one real assault from abroad. Groupe Bruxelles Lambert (GBL), Belgium's second largest holding company, in 1987 saw off a hostile bid by Axa of France for Royale Belge, Belgium's second-biggest insurance group. To do so, however, it had to combine forces with Union des Assurances de Paris, another French group.

The following year, La Générale was finally rescued by a French "white knight", the Compagnie de Suez conglomerate. By last year, the French had sent in one of its top executives, Mr Gerard Mestrallet, to get a grip on the sprawling holding, leading to fears that decision-making would shift from Brussels to Paris.

However, Mr Mestrallet has punctiliously observed local form and sensitivities, in a way that some La Générale executives felt Mr De Benedetti would not have done. For instance, he delivered part of his first presentation of annual results in Flemish, which he set about learning.

This is more than anecdotal in a country constantly beset by rivalries between the French and Dutch-speaking communities. But it is, nevertheless, hard-headed business logic that takes precedence. What was remarkable about the near-paranoia unleashed in 1988 about La Générale failing under outside control was how quickly it subsided. Mr Maystadt says the fears "have not completely died, but, I repeat, we have no choice. We are a member of the EC and part of the single market, and



Carlo De Benedetti: predatory raid that failed

we are a small country."

Subsequently, leading Belgian companies such as Solvay, the chemicals group, moved fast to plug the glaring gaps in their defences exposed by Mr De Benedetti – who had secretly amassed a nearly 18 per cent stake in La Générale before revealing his hand.

But this was logical protection against *any* form of hostile takeover, more than an assertion of specifically Belgian control.

The search by Sabena, the troubled national airline, for a foreign partner provides another example. Regionalist rivalries surfaced among employees during 1990's abortive link-up with KLM, the Dutch carrier, and when Air France acquired a chunk of Sabena equity after the Belgian government refloated the airline.

The "ancrage Belge" argument was plausibly fanned because the Belgian state led the $1bn bail-out, in what looked to be straightforward, flag carrier nationalism. Senior officials in the debt-strapped government underlined, however, that it would have been more expensive to close Sabena than to refloat it, mainly because of costly social transfers to its 12,000 workers.

In the event, ING's proposed takeover of BBL will not resolve the issue. Ten days ago, BBL announced the bid plans had been scuppered by differences over the price to be offered. However, the basic idea of a merger to set up a "big player" group on the *Allfinanz* or *Bancassurances* model, selling insurance and banking services throughout the Benelux countries through an integrated network, had a logic and appeal to BBL's management which has added fuel to the discussion.

The bank's main shareholder, the entrepreneur Mr Albert Frere, chairman and managing director of GBL, is thought to favour a link-up with Credit Communal, the credit institution jointly owned by all Belgium's provinces and municipalities. That idea – an *ancrage* as *Belge* as you could get – could now become a reality, despite suspicions that it was merely a tactical flirtation, aimed at jacking up the ING offer price.

Mr Maystadt told the FT before the outcome of the ING-BBL talks was known that the government had no intention of preventing a Dutch takeover, but "would prefer that BBL remains in so-called Belgian hands". Now it looks as though he may get exactly what he wanted all along.

Co-ordination centres have not lost their allure after 10 years

Tax privileges still on offer

BELGIAN "co-ordination centres" will be 10 years old on December 30. That was the day in 1982, when the government – endowed with special powers to cope with the growing economic crisis – authorised tax-breaks for companies operating certain financial and management services out of Belgium.

If there is a birthday party, it could be a particularly crowded one. As of February this year, there were some 295 co-ordination centres in Belgium, employing 6,550 people and total capital of BFr900bn (£18bn). The corporations involved include Goodyear, General Motors and IBM; while a number of Belgian companies with international interests have also found it worthwhile to spin off some of their activities and form co-ordination centres.

Mr Philippe Maystadt, the finance minister, smiles at the idea that the concept's allure may have diminished over the past decade. In fact, he has recently made a number of technical amendments to the original legislation, because, "it was really too attractive," he says. "Even after those adjustments, it is still attractive, as you can see from the number of inquiries I get."

The basic attraction of the co-ordination centre is that it allows the multinational to make cost savings, by shielding centralised management activities from income tax. Centres are also exempt from tax on initial capital or capital increases, and from real-estate tax.

As the Belgian finance ministry points out, in its brochure on the centres scheme: "[The legislation] allows a broad range of sophisticated intra-group financing operations to be carried out in a virtually tax-free environment."

The co-ordination centre concept is not specifically aimed at encouraging the establishment of international holding companies on Belgian territory. Separate fiscal attractions help Belgium compete with neighbouring Luxembourg and the Netherlands in that area – for example, under general Belgian rules, dividends received are 95 per cent tax-exempt. But the legislation on co-ordination centres stipulates that the centres cannot hold shares in any other company.

The co-ordination centre is not specifically aimed at encouraging multinationals to set up in the country. Separate fiscal attractions help Belgium compete with Luxembourg and the Netherlands

In addition, the centres' activities are carefully restricted. For example, they cannot sell accounting services outside the group to which they belong, but they can do the accounts for affiliated companies, and charge for it. Leasing, factoring, reinvoicing and financing can be done from the centre, as can insurance, research, publicity and information, data-processing and advertising.

The list is not exhaustive: all co-ordination centre proposals have to be vetted by the Belgian authorities, which collaborate with potential investors to tailor a centre to the multinationals' needs.

Apart from anything else, the scheme was fortuitously timed, coinciding with the rapid growth in Brussels' political influence. As Mr Julian Oliver, of American Express Europe, which was in the first wave of companies to set up co-ordination centres, points out, tax-breaks alone are not responsible for the idea's success: "Brussels is geographically close to the industrial heartland of Europe, and obviously it's the political capital of Europe."

According to Mr Remi Troch, of Deloitte & Touche's Antwerp office, the recent legislative changes – which allow existing centres to apply for renewal of their status for a further 10 years – have not reduced the basic financial attractions of the concept. For example, the holding HQ can borrow funds from the co-ordination centre to buy shares: the borrowing charges relating to the purchase of shares are tax-deductible under Belgian law, but the interest income earned by the co-ordination centre – is tax-exempt.

Some who have benefited from the tax privileges of the scheme are amazed that this apparent "tilting of the level playing field" can still happen as the single European market is put in place. But as Mr Troch told a recent seminar on European tax: "Nobody knows how long this government will last and they do need a lot of money, but so far with all the changes they have made, this has not yet been questioned."

Andrew Hill

Impact of 'little bang' is slightly muted

Belgium's "little bang" – the government reforms which came into force at the beginning of last year – was supposed to energise the Belgian financial markets. But external events conspired to undermine some of the effects of the programme. Whether it can yet be counted a complete success depends, to an extent, on which sector of the financial markets one looks at. Below, **ANDREW HILL** considers its effect on the stock market, futures and options and the bond and money markets

Choice shrinks for investors

THE Brussels stock market has been hit, like most world markets, by the downturn in the global economy.

Alas for Belgium's stockbroking community, liberalisation coincided with that slump in volume. Consequently – as everybody from the president of the bourse downwards is prepared to admit – changes to the broking system and improvements in the structure of Belgian commissions have had only a limited effect.

This year will be more profitable than last, but Brussels, hampered by illiquidity and a limited range of domestic stocks, still struggles against more active European rivals.

Mr Jean Peterbroeck, the bourse president, says part of the reason is that the government gave the bond market a leg-up in the same series of reforms by reducing withholding tax on fixed interest financial instruments from 25 to 10 per cent. Combined with the turbulence of European stock markets, that made bonds much more attractive than equities for traditionally cautious Belgian investors.

At the same time, he claims that large Belgian banks did not act on their promises to invest heavily in stockbroking operations. The delay in implementing a Belgian futures and options exchange has also held back the market, and Mr Peterbroeck continues to fight for the abolition of the tax on stock market turnover, which penalises investors up to BFr10,000 for each transaction.

There is little the bourse can do to cope with more lasting structural impediments to growth of the exchange. In 1950, for example, there were some 550 Belgian stocks quoted on the exchange; in 1992 there are just 170. They are larger companies, formed from mergers, but the investment choice looks restrictive to buyers who are used to the British or German exchanges.

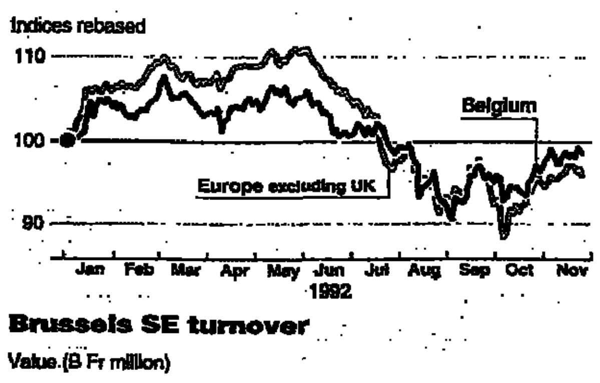
The gradual shrinkage is continuing: for example, had Banque Bruxelles Lambert been swallowed up by the Dutch financial services company Internationale Nederlanden Groep, then the bourse, while benefiting from the short-term takeover excitement, would have lost one of its most heavily-traded and best-known stocks.

In the long term, flotation of publicly-owned companies may help increase the liquidity of the market, although the first wave of privatisation is likely to involve sales to single buyers rather than British-style share offers. Brokers are also trying to persuade family companies – for example, the owners of the Stella Artois beer brand – to float some of their shares on the exchange and excite new investor interest.

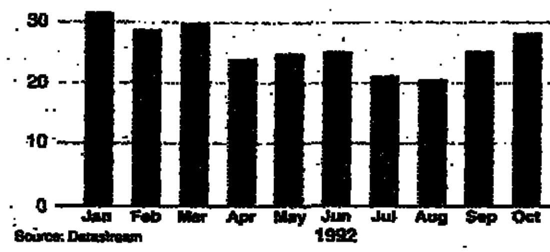
For the future, like other EC stock exchanges, Brussels has work to do to implement changes introduced by EC directives on investment services. In particular, the Belgian exchange will try change to a London-style market-making system by early 1995. Mr Peterbroeck fears the costs associated with introducing such a system might drive more small brokers out of the market, although he hopes to collaborate with other EC exchanges to ease the burden.

Even if he seems unhappy about the administrative changes involved, the bourse president agrees that in general a single European market will be good news – it was, after all, what the 1991 reforms were partly meant to prepare for. "Belgium can only gain. Belgian investors have already invested a lot outside the country – but outside investors have not spent very much in Belgium. The possibilities are great," says Mr Peterbroeck.

FT-A world indices



Brussels SE turnover



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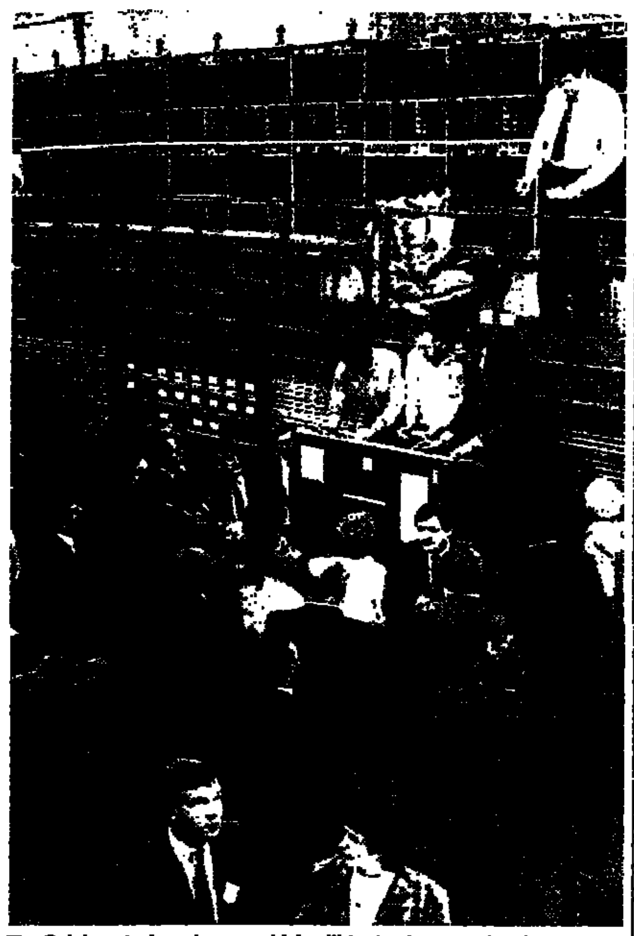


The Belgian stock exchange, which will try to change to London-style market-making by 1995 (photograph by Ashley Ashwood)

Computer delay hits Belfox

FUTURES and options have had a slow start in Belgium. Belfox, the new futures and options exchange, was supposed to open for business in May or June 1991. As it was, dealers did not start buying and selling futures until December 6, and the options market was launched only six months ago.

Getting the British-designed computer system up and running efficiently was the main problem, according to Mr Remi Vermeiren, chairman of the Brussels-based exchange. "The delay caused a lot of negative elements – financially, psychologically and for the image of Belfox in the market," he says. "It also absorbed a lot of management time."

Even now, with the computer problems largely ironed out, the market is small. Two options are traded – on Belgian retailer Delhaize, and on Petrofina, the large Belgian natural resources company – and two futures, one on Belgian government bonds (BGB) and one on the three-month Belgian interbank offered rate (Bibor).

Even leaving aside the technical problems, this has been a difficult teething period. The cornerstone of futures trading was supposed to be the BGB future, which Belfox hoped would capitalise on the success of the underlying government bond market. But after a reasonably buoyant start, volume collapsed in June and July.

Mr Vermeiren puts the slump down to the relative inexperience of the Belgian market, combined with competition from the market in German Bund futures. Some investors thought they could hedge their Belgian franc exposure in the German market – relying on the fact that the franc is tied to the D-Mark. In addition, the more liquid German market could offer narrower spreads to futures dealers – two to three basis points, rather than eight to 10 on Belfox.

That gap has now narrowed, according to Mr Jos Schmitt, Belfox general manager, with the Belgian exchange offering a four to five basis-point spread. Mr Schmitt also believes investors have begun to realise that they cannot cover all their risks on the Belgian markets with Bund futures.

The situation was eased by a "gentleman's agreement" between 15 financial institutions, put in place in the middle of August, when BGB futures volume was in the doldrums. The institutions agreed to deal a minimum number of BGB futures contracts until the end of the year. The effect on BGB futures trading has been dramatic: between April and August volume only occasionally burst through a daily average of 1,000 contracts dealt, and was mostly below 500, but in the last two weeks of October, volume averaged 2,413 contracts daily.

Investors may have begun to realise that they cannot cover all their risks on the Belgian markets with Bund futures

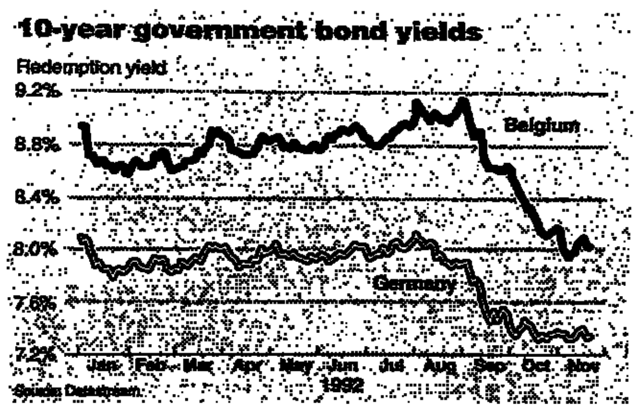
Financial institutions now seem to be dealing contracts voluntarily, but it is clear that the first months of next year – when the gentleman's agreement is supposed to expire – will be crucial.

The options market, which has faced stiff competition from the better-established Amsterdam exchange, is in need of more products. By mid-February 1993, Belfox hopes options will be available on some of Belgium's other large shares – such as Electrabel, Société Générale de Belgique, Solvay, Union Minière, GIB Group, and the large banks – as well as a future and an option on the Bel-20 index of top Belgian stocks.

But Mr Vermeiren is not yet prepared to declare victory in his campaign to educate sceptical investors in the delights of futures and options trading. "I hope [the market] is recovering, but honestly speaking I have some doubts," he says. "I think it will only recover fully when we have a complete system and products on the [stock market] index."

Bond market becomes attractive

10-year government bond yields



Source: Datastream

THE bond and money markets were the success story of the wide-ranging financial reforms. The state reduced withholding tax on new fixed yield securities, tied the Belgian franc to the D-Mark, and, later, reformed the money market, and gave a kick-start to the market in linear bonds (which are known as OLOs).

The result has been a reduction in interest rate differentials between Germany and Belgium, and active primary and secondary markets in government debt instruments and treasury bills. In the secondary market, total transactions in OLOs averaged BFr25bn daily between the beginning of 1991 and mid-1992, and BFr30bn in treasury bills.

On a recent finance ministry mission to Asia, investors complained about the lack of liquidity in Belgian bonds during their morning trading period – an indication, say Belgian officials, of the growing attractiveness of these instruments to international investors.

Domestically, debt costs for the Belgian state have been reduced, and the investor now has a much wider choice of instruments.

The reform is not over. Since October, primary dealers in OLOs have been able to "strip" the long-term 2007 linear bonds, allowing principal and coupon to be dealt separately – adding Belgium to France and the US as the only countries in the world which offer such a facility.

The government also wants to diversify the market by allowing securitisation of government debt and encouraging the corporate bond market, an area where Belgium has always lost out to Luxembourg with its combination of tax breaks and banking expertise.

The key, according to Belgian officials, is to attract issuers to the market, and to that end, a draft law aims to cut the upfront cost of issuing corporate bonds. It will also extend to corporate bonds the complex book-entry clearing system used for OLOs.

This would allow Belgian corporations and non-Belgian holders of bearer bonds – usually difficult to identify for tax purposes – to benefit from their exemption from withholding tax on such instruments.

Officials hope the framework for such a system will be in place by the middle of next year.

Flemish-Walloon compromise

Regionalism may not be such a great handicap

ONE of the better books on Belgium appearing this autumn had the modest title: "The Belgians".

Sponsored by the Foreign Ministry and the Office for Foreign Trade, it offers a readable, well-illustrated account of Belgium's history, its government and its multilingual culture, interspersed with disarming nuggets of information such as: "Since the end of World War II, Belgium has already had 36 different governments."

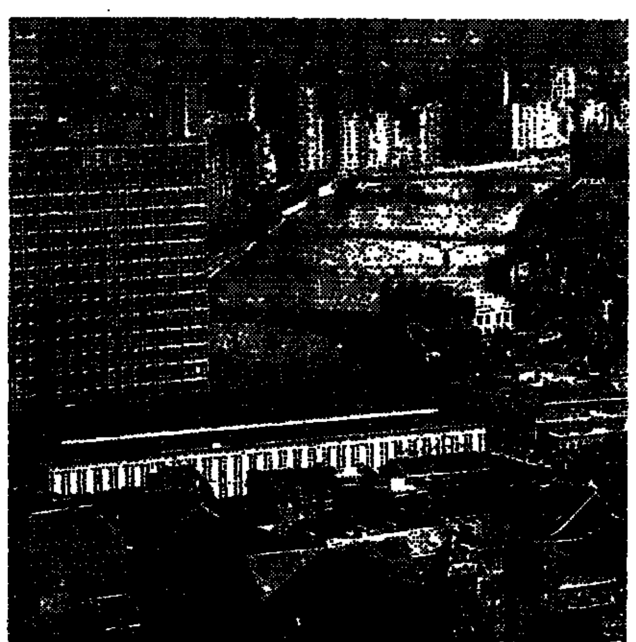
The divisions between a Flemish North and Walloon South may have left Belgium politically weak; but from an economic standpoint, the country has remained surprisingly resilient – to the point where its increasing regionalism may be less of a national handicap than is often imagined.

"The Belgians" was published just before a long weekend of horsetrading between Mr Jean-Luc Dehaene, the prime minister, and the leaders of the four main parties in his government. It culminated in what may prove a historic compromise between the Flemish and the Walloons. If passed by parliament, it will redraw the map of Belgium as a federal state, wrapping up the third stage of constitutional reforms first set out in 1988.

Part of the plan means that the regions will assume new responsibilities from the national government, notably for agriculture and foreign trade. Responsibility for scientific research and for legislation concerning social assistance agencies will be shared between the regions and the communities – the other main political divisions built around the Dutch, German and French languages.

From an investor's point of view, the three increasingly autonomous regions – Brussels, Flanders and Wallonia – stress that the reforms will not change the long-standing decentralised approach to job-creation. Mr Philippe Maystadt, Belgium's finance minister, makes clear that the three will market themselves in the same way as other European regions, such as Bavaria or Catalonia.

Each Belgian region has developed its own distinctive sales pitch. In Flanders, the accent is on its location at the heart of the European single market due to come into effect on January 1, 1993. Equipped with the three major seaports – Antwerp, Ghent and Zeebrugge – Flanders has first-class, toll-free highways backed up by a dense railway network which puts London, Paris, Bonn, Cologne and Dusseldorf all less than 300km away. Not unreasonably, the region can lay claim to being ideally situated as a test market for northern Europe.



Liege in Wallonia: welcoming the Japanese

Indeed, there are times when what regional officials call "Flanders/Belgium" is portrayed almost as an extension of Netherlands and Germany in terms of productivity, low inflation, and skilled, multilingual workforce. With only 58 per cent of the Belgian population, Flanders accounts for 74 per cent of the country's exports to Europe.

Automobile sub-contracting is an important source of jobs since Ford, General Motors, Renault and Volvo plants are all nearby. Ms Josee Mercken, managing director of Flanders Investment Office, stresses that small, clean, high-technology businesses such as micro-electronics are what the region wants. But Europe's deflationary cycle has made it much harder for Flanders to pull in foreign investment, with companies postponing decisions until early next year, she adds.

Wallonia's experience this year is similar. The region has largely recovered from the corporate horror story of the late 1970s, when steel and glass industry closures took their toll; but unemployment is still between 12 and 14 per cent, forcing the Walloons to dream up new ideas on how to sell itself to the outside world.

One aim is to revive Wallonia's pioneer heritage in industry. Walloons set up a steel plant in Sweden around 1800, and the first glass manufacturing operation in Japan in the late 19th century.

Mr Jean-Marie Agarkow, deputy general manager at the office of foreign investment, describes the pioneer theme as similar to an American Wild West movie; but this time the "good guys" in white hats are the Japanese who are being welcomed in Wallonia with a fervour more readily associated with job-hungry Britain.

One of the latest Japanese investors is Tsuji, the Osaka-based school for cooks. Tsuji bought a chateau near Mons for BFr30m and is prepared to put in a total of BFr110m to train Japanese cooks for six months in the fine arts of Belgian and European cuisine. Pushing the Brussels bureaucracy to ease up on visa restrictions was a bit of a nightmare, says one Walloon official, but in the event it worked.

Wallonia has moved faster than Flanders to adjust to EC demands that richer countries (such as Belgium) rein in national investment assistance to their own regions, so as to avoid undermining the effect of Community aid to poorer member states. The Walloon response was typically practical: the definition of a small-to-medium business was raised from its original level of a company employing 40-to-70 people to the EC level of 250 people and BFr20m turnover. These companies can now expect the same level of tax write-offs or capital relief of up to 21 per cent, plus some aid if they locate in a special assistance area.

For much of the late 1980s, Brussels might have looked up at its nose at such inducements. With its newly-minted image as the "political capital of Europe", Brussels seemed to be riding the crest of a wave created by the single market 1992 project. More recently, the economic downturn has dented confidence.

Some 15,000 civil servants work in Brussels, three-quarters for the European Commission. With families, that means 37,000 people. If one includes the growing press corps and the diplomatic corps, conference goers, lobbyists and international visitors, this group alone is estimated to generate BFr22.5bn, of which all but BFr1.5bn stays in Belgium. This combination of spending power and political influence is the real drawing power of Brussels – even if it has a long way to go before it can match Washington DC, the capital with which it is often compared by Eurocrats.

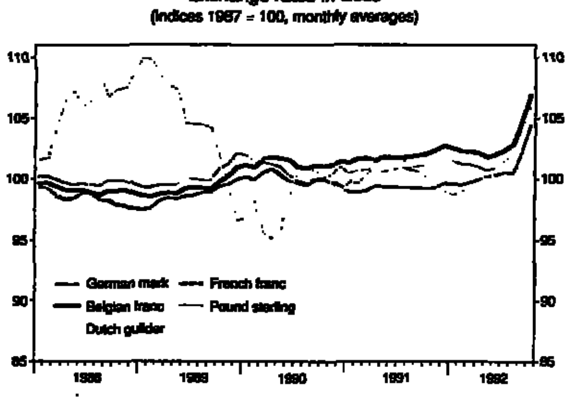
Lionel Barber

BRUSSELS AT THE LEADING EDGE OF FINANCE

The Belgian Franc : a quasi-Deutsch Mark with a higher long-term yield

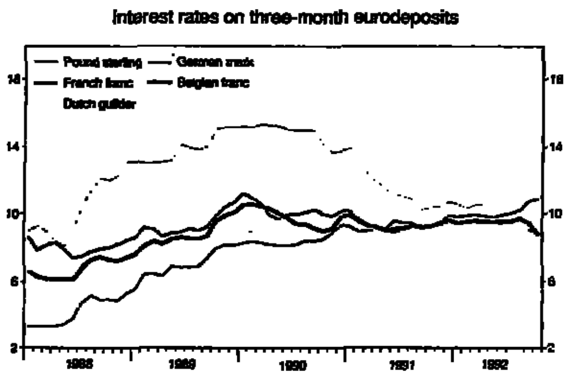
Your confidence in the Belgian Franc is based on solid macroeconomic fundamentals of the Belgian economy and a credible monetary policy. The actual higher long-term yield makes it a currency worthwhile to consider in your investment decisions.

Exchange rates in Ecus



Belgium has pursued a strong exchange rate policy linked to the DEM since June '90.
This policy has proved quite successful as the BEF has ranked systematically at the top of the European Exchange Rate Mechanism (ERM).

Interest rates on three-month eurodeposits

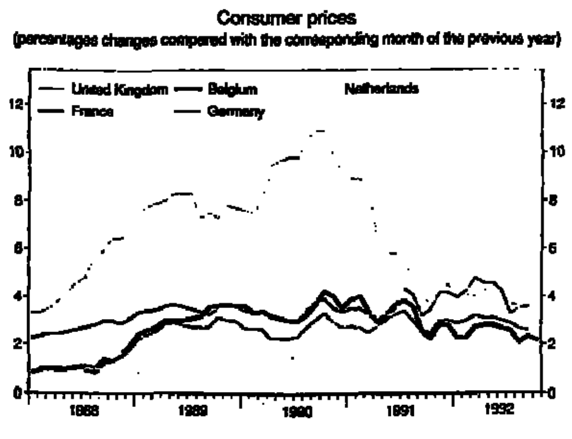


The favourable reaction to the strong currency policy has been translated into a rapid decline in the interest rates spread against the strongest EMS currencies, as Belgian short-run interest rates have closely shadowed trends in German rates during the last 2 years.

During the recent currency crisis in Europe, the Belgian National Bank intervened for about the same amounts as the Dutch central bank to support the weaker currencies of the ERM. As a result, the BEF was considered as a refuge currency with the short-run capital inflow in BEF during the month of September, amounting up to BEF 122 billion or 1.7% of GDP.

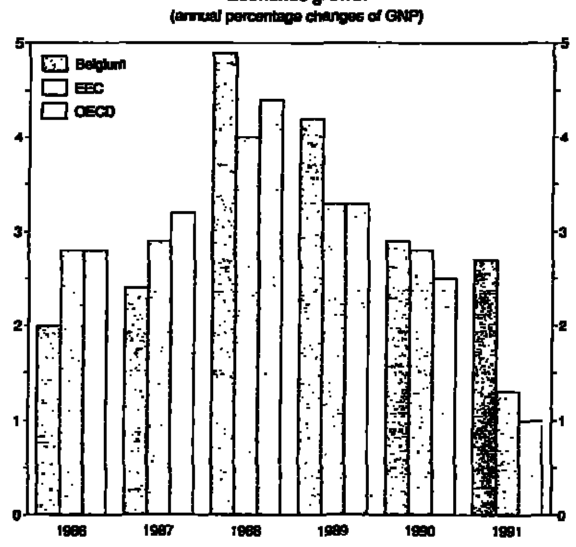
Helpful fundamental developments underlying the strength of the BEF include the sustained and comfortable annual surplus in the current account of 2% of GDP or more during the last 6 years, a figure which will also be reached in 1992 and 1993.

Consumer prices



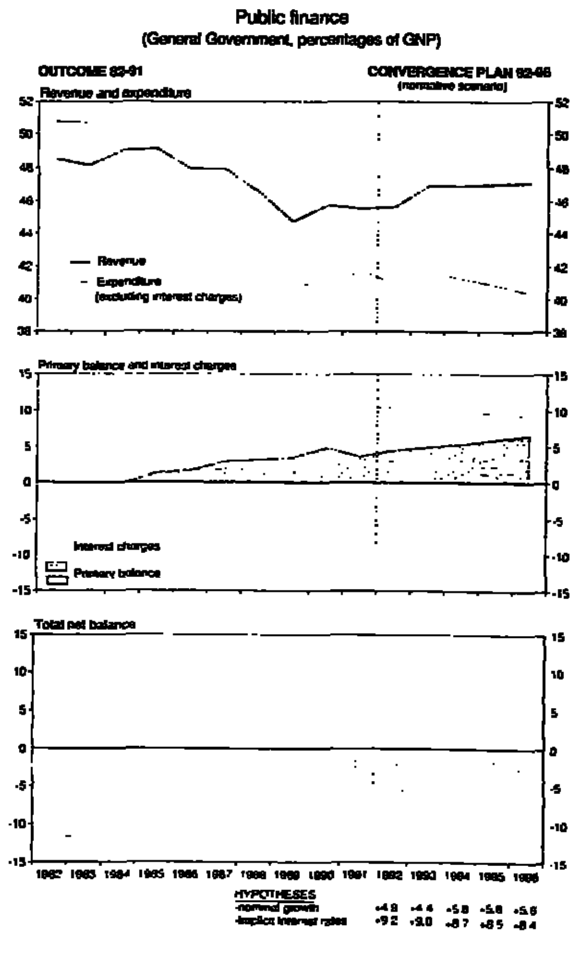
Belgium has traditionally performed extremely well on the inflation front, and with annual inflation at 2.2%, it currently enjoys one of the lowest rates in Europe.

Economic growth



The performance on inflation goes hand in hand with an economic growth rate better than the ERM average, even in 1992.

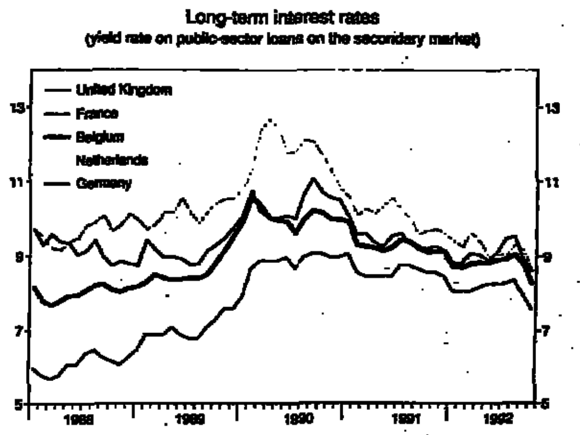
Public finance



Belgian public finances are progressing in a positive manner. The Belgian government has run a primary budget surplus (i.e. revenues minus expenditures excluding interest charges) since '84. This surplus amounts today to 5% of GDP, the highest in the European Community.
Moreover, the government's convergence plan to phaseIII of the European Monetary Union implies a public deficit of less than 3% by the end of 1996, a target well within the possibilities of the public finances.

All these items should and do reduce possible market concerns about the strength of the BEF in the future.

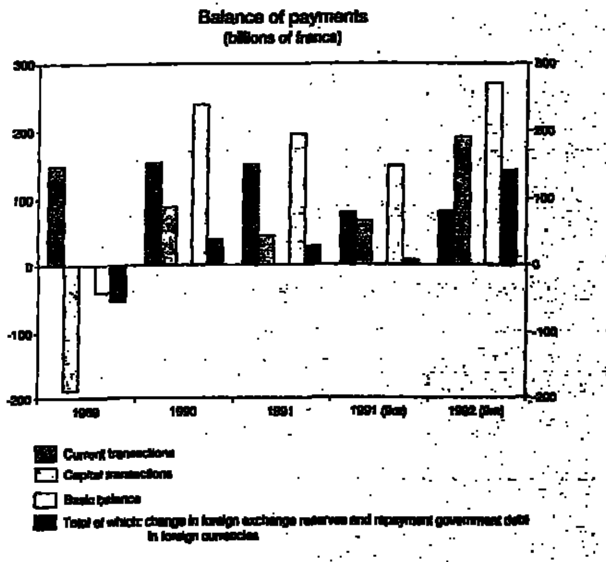
Long-term interest rates



The credibility of the monetary policy is reflected not only in the level of the Belgian short-run interest rates but also in the long-run interest rates, today about 8.1 % and down from a 200 basispoints spread with the German level 2 years ago to 65 basispoints now.

Moreover the liquidity on the secundary market of government securities has improved considerably. In monthly terms, the volume has gone up from about BEF 220 billion early '91 to BEF520 billion in the second quarter of '92, with an average yearly turnover ratio of about 5.

Balance of payments



The financial markets reacted to these developments with due enthusiasm: during the first 9months of '92, the long-run capital account showed a surplus of BEF 191 billion (or 2.7% of GDP) versus BEF67 billion during the same period last year.

As a result, the basic balance of payments (i.e. the sum of the current account and the long-term capital account) jumped up from BEF147 billion in the first 9 months of '91, to BEF272 billion up to September '92. Concurrently, the official balance of payments improved from a surplus of BEF 8 billion (3 quarters '91) to BEF141 billion during the first 3 quarters of'92.